



THE DIGITAL TRANSFORMATION OF NON-TECH MSMEs IN NIGERIA

Building the Digital Ecosystem through Research and Stakeholder Engagement



About Us



Digital Transformation Centre Nigeria - DTC Nigeria

(Digital Solutions for Sustainable Development in Nigeria)

The Digital Transformation Centre Nigeria (DTC Nigeria) is co-funded by the German Federal Ministry for Economic Cooperation and Development (BMZ) and the European Union (EU) and implemented by *Deutsche Gesellschaft fuer Internationale Zusammenarbeit* (GIZ) GmbH. It focuses primarily on Digitalization and Entrepreneurship.

The project aims to contribute to the improvement of the capacity of the Nigerian economy to implement digital innovations for growth, through supporting the digital transformation of the economy and society.

DTC Nigeria aims to improve policy implementation, performance of organisations and networks as service providers for the digital economy, availability of scalable digital solutions, and competences for the growth of the digital economy.

The project works closely with Nigerian actors in the innovation ecosystem such as: National Information and Technology Development Agency (NITDA), research and academic institutions, innovation hubs, networks, start-ups, Micro Small and Medium Enterprises (MSMEs), women and youth.

The project works toward achieving the following outputs:

Output 1: Cooperation between policy actors and actors in national and international innovation ecosystems is improved: By promoting innovation-friendly framework conditions for the digital economy by improving cooperation between policy actors and actors in the innovation ecosystem from the private sector, science, and research as well as civil society.

Output 2: Innovation support organisations are developed and supported to offer a range of services to MSMEs to implement digital innovations leading to digital transformation of MSMEs.

Output 3: Validated digital solutions are available to the Nigerian economy: By promoting the production and validation of new and existing innovative digital solutions for use by MSMEs in Nigeria.

Output 4: The skills of women and young people to use digital solutions for their economic activities are improved through digital and entrepreneurship skills trainings, harmonization of certified digital and entrepreneurial training standards and establishing a mentorship support network.



Summary

Nigeria has the preconditions for mechanisms to create a powerful digital innovation ecosystem. With the National Digital Economy Policy and Strategy (2020-2030) driving the development of the ICT sector, Nigeria has set ambitious goals for its digital transformation. The subsequent National Digital Innovation and Entrepreneurship Policy was developed to set in motion the strategy for achieving a digital Nigeria. However, the country is held back by a number of factors, chief among being the lack of execution and coordination of policies and strategies down to the state level. Existing support structures focus mainly on start-ups but do not support the digital transformation of existing micro, small and medium-sized enterprises (MSMEs) from non-ICT sectors.

MSMEs are the backbone of the Nigerian economy and as strategic as these

businesses are, they lack the knowledge and very often the financial resources to adopt and maintain digital solutions. Thereby missing out on the benefits of digital transformation – an essential requirement for operational efficiency and scaling.

Nigeria ranked 118 on aggregate out of 132 countries in the Global Innovation Index (GII) for 2021. The nation ranked low on infrastructure (120), human capital and research (121), knowledge and technology outputs (123), and Government [policy] effectiveness (127). Arguably, these rankings were released a little over a year after Nigeria introduced its National Digital Innovation and Entrepreneurship Policy and Digital Economy Strategy, 2020-2030, and so most likely do not reflect their anticipated impact. Although they clearly outline the goals of the Nigerian government for the digital transformation of its economy, effective execution, coordination and implementation down to the state level

would require collaborative frameworks and data input for evidence-based policy among other solutions.

This Policy Brief was put together to concisely address these issues leveraging inputs from stakeholders across the nation's digital ecosystem. In this brief, several recommendations have been proposed to support the regulatory body, NITDA and allied institutions such as SMEDAN, on the way forward to realizing the desired goals for inclusive policy design and effective deployment, particularly for the digital transformation for non-tech MSMEs.

“**The National Policy for Digital Innovation and Entrepreneurship was crafted in 2019 with the goal of creating a digitally innovative Nigeria, positioning the digital economy to drive the country's economic recovery.**”

Introduction

One of Nigeria's main policy objectives is to promote social stability and economic growth through digital transformation. The National Digital Innovation and Entrepreneurship Policy was crafted in 2019 with the goal of creating a digitally innovative Nigeria, positioning the digital economy to drive the country's economic recovery. This was subjected to a major test with the advent of the COVID-19 pandemic which transformed the business landscape in an unprecedented way; it hastened the pace of digital transformation of some MSMEs and led to great losses for those that were unable to adopt digital solutions to sustain their business online.

This reality led to the classification of MSMEs into those with digital resources or aptitude and those without. Despite the accelerated digital transformation in a few sectors, namely: Green economy, Retail and Manufacturing/Production, many MSMEs remain behind in terms of adoption of technology.





These challenges are symptomatic of the digital transformation policies currently put forward by Government taking effect slower than anticipated.



Figure 1. Data on the MSME space in Nigeria



Problem Statement

Nigeria has formulated policies and strategies to support digital transformation, innovation and entrepreneurship. While policies such as the Digital Economy Strategy (2020-2030) and the National Digital Innovation and Entrepreneurship Policy, are in place, their implementation at state level needs improvement for the impact of the policies to be apparent.

Why digitally transforming MSMEs matters

The impact of MSMEs on the Nigerian economy is widely acknowledged...if MSMEs grow the economy will grow. According to a survey conducted by SMEDAN and the National Bureau of Statistics (NBS), MSMEs in Nigeria account for 46% of the national GDP, 97% of businesses in Nigeria, and employ 84% of its workforce. While digital start-ups are thriving, most MSMEs are lagging in digital transformation and are unable to make significant contributions to the innovation ecosystem. The result is sub-optimal business processes, a slowdown in productivity and growth, and a deteriorating market position.



Figure 2. Policy Dialogue Framework

Recommendations

To digitally transform MSMEs, improve the dynamics of the digital transformation ecosystem, and strengthen the effectiveness of Policy Design and implementation, the following specific actions are recommended



A. Inclusive & Performance Driven Policy Environment (Design and Implementation)

1. Inclusive Participation: Policy design and implementation should prioritize interaction and involvement with policy consumers and other key actors in the digital ecosystem including research and academia. They are invaluable assets in policy formulation efforts for inputs as their participation will engender inclusivity and create a sense of ownership within the ecosystem.

2. Eliminate Policy Duplication: The convergence of policies should be prioritized to eliminate inefficiencies occasioned by policy duplication by regulatory bodies at the federal and state levies in Nigeria

3. Adopt evidence-based policy creation model: Policy design without leveraging feedback from the ecosystem it is designed to serve will have measured success. Regulators are encouraged to have a set of standard M&E frameworks reflective of the unique key performance indicators (KPIs) in target sectors/industries where the non-tech MSMEs operate to track progress and provide evidence on the effectiveness of policy interventions in the ecosystem.

4. Transparency in Policy Performance Reporting: Without prejudice to the Data Protection Act, regulators are encouraged to periodically publish policy performance data across the ecosystem. This will enhance transparency, reduce trust deficit, allow for ease of planning by other government agencies whose activities impact MSMEs. It also proffers the added advantage of attracting foreign direct investments (FDIs) to the ecosystem.

B. Digital Literacy, Capacity Building and Support

The priority and promotion of digital learning and upskilling for MSMEs by NITDA in partnership with relevant ecosystem

actors is **crucial**. By leveraging on a collaborative approach and working to create the enabling environment for service providers to thrive, existing business associations and trade blocks could operate as strong allies in promoting digital transformation among MSMEs.

C. Establishment of business formalization and e-process guide; and deployment of quality digital infrastructure

It is recommended that **support services and digital portals for information provision and assistance be developed** to assist non-tech MSMEs in transitioning from informal and analog to digitally engaging business processes. Businesses should have free access to advice on transitioning to digital processes and support with adopting digital solution for their needs. This can be accomplished by linking MSMEs to validated knowledge networks, expert advice, innovation support organizations, and exposure to digital tools.

Tech MSMEs (startups) can develop adapted solutions for non-tech MSMEs which would in turn, offer a big market opportunity. Digital business solutions and tools could be created to address specific business challenges, for example, (the Nigerian E-governance platform). Similarly, through government subsidies, businesses can enjoy lower acquisition costs for globally cost-prohibitive tools such as ERPs and cloud storage. To drive uptake in both rural and urban areas, a rapid deployment quality digital infrastructure, such as connectivity in remote areas, data centers, frequency management equipment and 4G internet by the relevant government agency.

While effecting these recommendations will take a few years to translate to an improvement of Nigeria's rank of 114 out of 132 on the 2022 the Global Innovation Index, Nigeria certainly has the capacity to defy modest expectations of its digital innovation.



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