
**The Effect of Government Economic Policy on the Development of Small and Medium
Scale Enterprises in Nigeria**

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ABSTRACT

The study investigated the effect of government economic policy on the development of small and medium scale enterprises in Nigeria. The population of this study comprised all small and medium scale enterprises in Nigeria. The study adopted Expost-Facto research design, while stratified random sampling technique was used to draw the 250 respondents for the study. The instrument for data collection which was tagged “government economic policy and small and medium scale enterprises development questionnaire, (GEPSMSEQ)” was administered to the 250 respondents and used for the study. The instrument was vetted by 1 expert in statistics and 1 expert in test and measurement before the reliability test was conducted with 30 respondents and the result which was 0.77 proved the instrument reliable for the study. Data collected were analysed using independent t-test analysis. The results of the data analyses were all significant and from the results of the analysis, it was observed that there is significant influence of government policies with respect to tax on the development of small medium scale enterprises in Nigeria. It was also observed that there is significant influence of government policies with respect to levies on the development of small medium scale enterprises in Nigeria. It was concluded that government economic policy has remarkable effect on the development of small and medium scale enterprises in Nigeria. The recommendation was that instead of imposing high tax and level on business owners, government should support small and medium scale business in the country with good financial assistance which must be supervised with banks to make sure that the funds are diligently utilized for business only in order to promote economic growth. It was also recommended that there should be constant power supply (electricity) in order to help owners of small and medium business manage the business with good profit and savings.

Key Words: Economic Policies, Tax, Enterprises, Levies

Introduction

The pursuit of economic development has been a major goal of many developing nations of the world. Developing countries are confronted with several problems such as high rate of poverty and unemployment which have continued to hinder the attainment of socio-economic development. It is pertinent to note that for any nation to attain development, industrialization, gainful and meaningful employment are important indices used as a measurement of economic development. This is often depicted by income per capital, equitable distribution of income, the welfare and quality of life enjoyed by the citizen of that nation. Small and Medium Scale Enterprise (SME) has proved to be a major tool adopted by the developed nations to attain socio-economic development. In recent time, small scale industrial sector is considered to be the backbone of modern day economy.

Policy can also be found in the determinations and decisions of state department heads and middle management. Their decisions or actions determine how legislative policy and broad governmental mandates are actually translated into services. Policy is reflected in strategic plans and policy memoranda, (Aremu, 2010). It is translated and carried out through rules and regulations, manuals, requests for proposals, contractual agreements, enforcement actions, and so forth. However, many researchers have proved in the past that government policies do influences small and medium scale enterprises (Ireghan, 2009). Small and medium enterprises are believed to be the engine room for the development of any economy, because they form the bulk of business activities in a growing economy like that of Nigeria (Basil, 2005). According to Essien & Udofia (2006), governments create the rules and frameworks in which Small and medium scale enterprises are able to compete against each other. From time to time the government will change these rules and frameworks forcing small and medium scale enterprises to change the way they operate. Small and medium scale enterprises are thus keenly affected by government policy. Key area of government policy that affects business is taxation policy. Taxation policy affects business costs. For example, a rise in corporation tax (on business profits) has the same effect as an increase in costs. Small and medium scale enterprises can pass some of this tax on to consumers in higher prices, but it will also affect the bottom line. Other business taxes are environmental taxes (e.g. landfill tax), and VAT (value added tax). VAT is actually passed down the line to the final consumer but the administration of the VAT system is a cost for business (Ikherehon, 2002). Moreover, the government of the day regularly changes laws in line with its political policies. As a result, small and medium scale enterprises continually have to respond to changes in the legal framework (Izedomi, 2011).

Okpara & Kumbiadis (2008) assert that SME performance is constrained by internal factors and external factors such as the carrying capacity of the environment, government policy or competition. The chief importance is that SMEs have the capability to produce sufficient levels of skilled and semi-skilled employment (Bubou, Siyanbola, Ekperiware, & Gumus, 2014). Surveys had shown that Nigeria consists of a huge number of SMEs which are the chief provider of job opportunities for the legal age of the population. However, SMEs face many challenges such as government policy, which affect their performance in Nigeria (Bubou et al., 2014). This study therefore seeks to investigate the effect of Government Economic Policy on the Development of Small and Medium Enterprises in Nigeria. Freedom

Statement of the Problem

Government uses policy to tackle a wide range of issues. In fact, it can make policies that could change how much tax you pay, parking fines, import and export duties, immigration laws and pensions (Ireghan, 2009). However, in Nigeria, government has come up with various policies aimed at investing in and boosting the Small and medium scale enterprises to generate employment and reduction of poverty but there has been issues of poor implementation. Policies can also be changed by government when is not effective and also when created can be made to affect specific groups of people or everyone in society. Tax burden is a major problem in Nigeria as many business organizations are not favored by the tax systems and policies in place. Some businesses are already collapsing; while majority are still struggling to meet up with high tax rates to ensure their businesses still exist. Other government policies concerning issues such as subsidies, interest rates, exchange rates and public-private partnerships also influence the growth of small and medium scale enterprises (Iromaka, 2006). However, the researcher is seeking to examine the effect of government economic policies with respect to tax and levies on the development of small and medium scale enterprises in Nigeria.

Objectives of the study

The main objective of this work is to examine the effect of government economic policy on the development of small and medium scale enterprises in Nigeria. In specific terms, the study aims to achieve the following:

1. To examine the influence of government economic policies with respect to tax on the development of small medium scale enterprises in Nigeria.
2. To find out the influence of government economic policies with respect to levies on the development of small medium scale enterprises in Nigeria.

Research hypotheses

The following null hypotheses will be tested:

1. There is no significant influence of government economic policies with respect to tax on the development of small medium scale enterprises in Nigeria.
2. There is no significant influence of government economic policies with respect to levies on the development of small medium scale enterprises in Nigeria.

Literature Review

Government's Interventions and Contributions towards Financing of Small and Medium Scale Enterprises in Nigeria

Over the years, the federal government has discovered SMEs as the cradle for industrialization and a prerequisite for rapid economic growth and self-reliance. As a result, the government enunciated a number of policies and programmes/incentive that would create a conducive environment for the development and promotion SMEs. Also in Nigeria, the Federal Government has also employed a number of efforts, some of which were economic driven, for examples, establishment of micro-finance banks, small and medium scale enterprises, among others to reverse or abate poverty in the country. At various times since the 1970s, the government has designed and introduced measures to promote SMEs in order to support employment generation thereby reducing poverty among the citizens. These efforts are geared towards enhancing the operation of small scale businesses Also, these measures have included fiscal monetary, and export incentives. The fiscal incentives included tax holidays and tariff concession.

According to Aremu (2010), in terms of monetary support, the Central Bank of Nigeria introduced credit guidelines requiring commercial and merchant banks to allocate a portion of their loanable funds to small businesses. Several developmental financial institutions and schemes were also established to aid small businesses, including the Nigerian bank of commerce and industry (NCBI), the Nigerian Industrial Development Bank (NIDB), and the World Bank SMEI and SMEII initiatives. There were also export initiatives from the Nigerian Export-Import bank (NEXIM) to stimulate export loan facilities to small businesses as well as export duty exemptions administered by the Nigeria Export Promotion Council (NEPC). Other small business incentive programs included personnel training, repair and maintenance of specialized machines, and extension services. Small business assistance programs have also been established by local and state governments.

Akwani (2007) stated that the international monetary fund (IMF) has agreed to support more economic growth in Nigeria by helping to finance infrastructure improvements. Therefore, promotion of such enterprises in developing economies like Nigeria is of paramount importance since it brings about a great distribution of income and wealth, economic self-dependence, entrepreneurial development, employment and a host of other positive, economic uplifting factors (Aremu, 2010). According to Izedomi (2011), the government enunciated a number of financial policies through national development plans and budgets as well as through its agencies to fund and provide necessary extension service to SMEs. The purpose of the government financial policy thrust is to ensure adequate financing of SMEs through loans or equity participation and to provide fiscal incentives designed to aid their growth and rapid development. Among these policies/programmes is the small industries credit committee (SCC) set up to administer to the country between 1975 and 1980, the establishment of the Nigerian bank for commerce and industry (NBCI) in 1973 to provide financial services to small scale businesses, the establishment of national directorate of employment (NDE) in 1986 to promote the development of small scale enterprises. Other agencies which includes the Directorate of Food, Road, and Rural Infrastructure (DFRRI), Better Life for Rural Dwellers, Peoples Banks, Community Banks, New Micro Finance Banks (MFB), Working for Yourself Programme, the Centre for Management Development was established to enhance the growth and development of SMEs.

Anyanwu (2001) opined that however, the performance of the small scale industries credit scheme (SCC) was unfortunately rather poor in the sense that many unviable projects were funded. Nevertheless, the Nigerian bank for commerce and industry (NBCI) loans and equity investment in small business continued to be of immense help in the development of SMEs in the country. The activities of the national directorate of employment resulted to the creation of over 148,000 new jobs which were directly created through the founding and setting up of small scale enterprises (Philips, 2001). In addition, the National economy recovery fund (VERFUND) was established to promote SMEs by providing medium to long term loans (5-10years) to those in Agro-Allied industries, industrial support services mining, quarrying, equipment leasing and other ancillary projects. The federal government provided N190 million while CBN contributed N100 million. African development bank contributed the remaining counterpart fund (Izedomi, 2011). In addition, the formation of small and medium scale industries apex unit within the Central Bank to assist in the disbursement of World Bank \$270 million loan to small scale entrepreneurs and the latest official concern by the federal governments towards encouraging the creation of small scale industries has been encouraging.

Effect of Government Economic Policy on the Development of SMEs

According to Naudé, Szirmai, & Goedhuys (2011), entrepreneurship activity in developing countries such as Nigeria is primarily based on necessity. The creations of Government policies for SMEs vary from advanced economies to developing countries and from country to country attributed to variations in social and custom values and the extent amount industry and business settings. Sathe (2006) in particular argues that Government regulations and their bureaucratic procedures can hinder as well as facilitate entrepreneurship activity such as new business origination. The Government can come up with policies that can boost and support the growth of novel technologies, products, and solutions. On the other hand, Government can likewise seem to hinder SME firm performance when it introduces policy which can restrict the autonomy, as well as the entrepreneurial freedom of some variety. According to the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) Nigeria, 80% of SMALL BUSINESSES die before their 5th anniversary. Among the factors responsible for these untimely close-ups are tax related issues, ranging from multiple taxations

to enormous tax burdens etc. In many government policies, small and medium enterprises are usually viewed and treated in the same light as large corporations. However, their size and nature makes them unique. Therefore, in dealing with small and medium enterprises, these unique qualities need to be considered.

Previous studies emphasize that government policies cause an impression on SMEs exploit, linkages and networking so as to hitch forces and resources utilization (Harvie et al., 2010; J. O. Okpara, 2011). Theoretical and empirical studies by Eniola and Ektebang (2014) and J. O. Okpara (2011) have established Government policy that appears to be more consistent in determining the public presentation of the SMEs. Oji (2006) observed that Nigeria has no explicit policy for the SMEs sector, the closest been the Small and medium Enterprises development Agency (SMEDAN), established in 2003 to facilitate the growth of the small and medium enterprises sector in the country. Also Omoruyi & Okonofua (2005) argued that the poor implementation of government policies concerning SMEs had resulted in confusion and quandary in business decisions as well as enervates the credence in the government's capacity to execute conscientiously its programmes.

The inability of government to execute favourable fiscal policies and policy inconsistencies has undermined the development of SMEs in Nigeria. Akinbogun (2008) in his study examine the impact of infrastructure and Government policies on survival of small-scale ceramic industries in South-West of Nigeria, and found that infrastructural facilities and Government policies have not encouraged viable small-scale ceramic industries in Nigeria. He noted that while Nigerian physical environment and people's culture have been favourable towards the business enterprises, infrastructural facilities and Government policies have not. This has serious implication for the business performance and survival in Nigeria.

Method

Research Design

An ex-post-facto design was used for this study. In this type of design, the researcher cannot manipulate the independent variable to affect the dependent variable but just rely on the already existing effect in the natural course of events.

Area of the Study

The research area of this study was Nigeria.

Population of the Study

The population of this study comprised all small and medium scale enterprises in Nigeria.

Sample and Sampling Techniques

A stratified random sampling technique was used to draw the 250 respondents derived from 2 states in Nigeria.

Instrumentation

The main instrument used in this study was questionnaire titled "GOVERNMENT ECONOMIC POLICY AND SMALL AND MEDIUM SCALE ENTERPRISES DEVELOPMENT QUESTIONNAIRE, (GEPMSSEQ)". The questionnaire was made up two sections, sections A and section B. Section A was used to collect information on personal data of the respondents while section B of the questionnaire was made up of two variables such tax and levies as they

affect the development of small medium scale enterprises in Nigeria. The obtained data was coded statistically before the statistical analysis of the data.

Validation of the Instrument

The instrument passed through face and content validated by the 1 expert in statistics and 1 expert in test and measurement.

Reliability of the Instrument:

Cronbach Alpha technique was used to determine the level of reliability of the instrument. In the reliability test, a total of 30 respondents randomly selected from one of the state in Nigeria that did not form part of the main work and the instrument administered on them. The reliability coefficient obtained was 0.77 and this was high enough to justify the use of the instrument.

Procedure for Collecting Data

A letter of introduction was written by the researcher. This letter was to introduce the researcher to the management of each small and medium scale business organisations used for the study so that they have the understanding and to give needed assistance to the researcher. The questionnaires were issued and retrieved 2 days latter from each respondent. The exercise took about 18 days.

Method of Data Analysis

The researcher subjected the data generated for this study to appropriate statistical techniques such as independent t-test analysis. The test for significance was done at 0.05 alpha levels.

Results and Discussions

Hypothesis one

The null hypothesis states that there is no significant influence of government economic policies with respect to tax on the development of small medium scale enterprises in Nigeria. In order to test the hypothesis, independent t-test analysis was used to analyze the data, (see table 1).

Table 1: Independent t-test analysis of the influence of government economic policies with respect to tax on the development of small medium scale enterprises in Nigeria.

Tax	N	\bar{X}	SD	t
High	182	13.95	1.48	20.78*
Moderate	68	17.82	0.69	

***Significant at 0.05 level; df = 248; N= 250; critical t-value 1.96**

The above table 1 presents the obtained t-test-value (20.78). This value was tested for significance by comparing it with the critical t-value (1.96) at 0.05 level with 248 degree of freedom. The obtained t-value (20.78) was greater than the critical t-value (1.96). Hence, the result was significant. The result means that there is significant influence of government policies with respect to tax on the development of small medium scale enterprises in Nigeria, which signifies that the higher the rate of tax the lower the rate development of small and medium scale businesses in Nigeria and vice versa. The result therefore was in agreement with the

research findings of Essien & Udofia (2006) who said that governments create the rules and frameworks in which Small and medium scale enterprises are able to compete against each other and from time to time the government will change these rules and frameworks forcing small and medium scale enterprises to change the way they operate. With this, according to him small and medium scale enterprises are thus keenly affected and that key area of government policy that affects business is taxation policy which affects business costs. The significance of the result caused the null hypotheses to be rejected while the alternative one was accepted.

Hypothesis Two

The null hypothesis states that there is no significant influence of government policies with respect to levies on the development of small medium scale enterprises in Nigeria. In order to test the hypothesis, independent t-test analysis was used to analyze the data, (see table 2).

Table 2: Independent t-test analysis of the influence of government economic policies with respect to levies on the development of small medium scale enterprises in Nigeria.

Levies	N	\bar{X}	SD	t
High	205	14.29	1.692	15.53*
Moderate	45	18.24	.435	

***Significant at 0.05 level; df = 248; N= 250; critical t-value 1.96**

The above table 2 presents the obtained t-test-value (15.53). This value was tested for significance by comparing it with the critical t-value (1.96). at 0.05 level with 248 degree of freedom. The obtained t-value (15.53) was greater than the critical t-value (1.96). Hence, the result was significant. The result means that there is significant influence of government policies with respect to levies on the development of small medium scale enterprises in Nigeria, which signifies that the higher the rate of levies the lower the rate development of small and medium scale businesses in Nigeria and vice versa. The result therefore was in agreement with the research findings of Ikherehon, (2002) who stated that other business taxes are such as landfill tax), and VAT (value added tax) are actually passed down the line to the final consumer. The significance of the result caused the null hypotheses to be rejected while the alternative one was accepted.

Conclusion

Based on the findings of the research work, the following conclusions are deemed necessary:

1. Government of Nigeria has formulated many economic policies which either makes or mars small and medium scale business in the country.
2. There is significant influence of government policies with respect to tax on the development of small medium scale enterprise in Nigeria
3. There is significant influence of government policies with respect to levies on the development of small medium scale enterprise in Nigeria

Recommendations

1. Instead of imposing high tax and level on business owners, government should support small and medium scale business in the country with good financial assistance which must be supervised with banks to make sure that the funds are diligently utilized for business only in order to promote economic growth.
2. There should be constant power supply (electricity) in order to help owners of small and medium business manage the business with good profit and savings.
3. Government should reduce taxes and levies imposed on business in order to help promote business success and growth.
4. Government should create good and conducive environment for businesses to operate with ultimate convenience.

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