



Research Paper

Government financial support and financial performance of small and medium-sized enterprises

Dr. Ismail Alhassan

Department of Accounting, Federal College of Education (Tech), Gombe. Email: alhassan1412@gmail.com

ARTICLE INFO

KEYWORDS:

Financial Assistance, Government support, SMEDAN, SME Performance

ABSTRACT

The impact of financial assistance on the performance of SMEs in six Nigerian states chosen from each geopolitical zone was investigated in this study using a mixed-methods approach that combined surveys and semi-structured interviews. Stratified and simple random sampling techniques were used to select respondents for the questionnaire, and 260 valid responses were returned for analysis. Although governments have made significant efforts to stimulate growth and development in the SME sector through various support initiatives, the increasing failure and underperformance of SMEs suggests that these efforts may not be as effective as expected. Additionally, 20 managers and owners of SMEs participated in semi-structured interviews. The quantitative data was analyzed using multiple regression and descriptive statistics, and the qualitative data was analyzed using thematic analysis. The results showed that although financial aid has a big influence on SME performance, it is frequently insufficient and hampered by irrational demands and red tape. The study suggests that increasing access to adequate capital is a crucial component of boosting SME performance in light of the study findings.

Received: 15 Mar 2024

Accepted: 11 May 2024

Available Online: 05 Jun 2024



© 2024 The authors. Licensee Scientia Academia Publishing. This is an open access article under the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0

1 | INTRODUCTION

A growing emphasis on strategies to develop and sustain a robust SME sector has resulted from the recognition of SMEs as the backbone of modern economies, contributing significantly to economic growth and sustainable development through the creation of jobs, poverty reduction, wealth generation, and food security (Bubou et al., 2024). Any efforts to advance an economy without sufficient emphasis on government support for SMEs are likely to result in unfavorable long-term outcomes because government support programs create essential conditions that enable SMEs to contribute to development by producing goods and services and creating jobs. According to Eniola and Entebang (2021), SMEs in developing nations, especially Nigeria, face a high failure rate and poor performance as a result of inadequate funding. The government must therefore address the fundamental issues preventing the sector's economic potential from being fully realized. Prior to Nigeria's independence, international corporations from Europe and colonial powers like Lever Brothers, GB Oliviant, and UAC dominated the corporate sector. These businesses, which benefited from significant resources and expertise, were primarily engaged in importing completed goods from their parent enterprises. By offering advantageous tariffs and tax breaks, the colonial administration assisted these businesses (Akinruwa et al., 2023). Programs for government assistance are intended to improve and encourage the success of SME operations (Shamsuddoha & Ali). Government assistance initiatives around the world have been attributed to differing levels of effectiveness in various nations. Such initiatives, for example, were essential to the growth of the SME sector and industrialization in South Korea. Due in great part to the expansion of SMEs, China's economic reforms in 1979 raised the living conditions of around 200 million people (World Bank Group). SMEs make approximately 70% of all jobs in Singapore and more than 50% of the country's economic output (Government Enhances Support). According to Fatoki (2024), SMEs frequently experience slow growth, especially as a result of a lack of funding and expertise. Government assistance programs are crucial to removing these obstacles. Government initiatives are required to promote SME growth because of the critical role SMEs play in economic development as well as their growing social and environmental impact. However, SMEs have suffered as a result of Nigeria's unstable economy and inadequate infrastructure. Given that SMEs create jobs, markets, industries, and technology that lead to increased productivity and a fairer distribution of income, supporting their development is regarded as a strategic goal in industrialized countries (Jahanshahi et al., 2021). In many developing nations, including Nigeria, the performance of SMEs continues to fall short of expectations, despite their potential and acknowledged contribution to economic development (Okonkwo & Obidike, 2016). This implies that SMEs still face significant failure rates in spite of different government assistance initiatives (Ihua, 2019; Kehinde, et al., 2016). It is still unclear if the government provides SME owners and managers with enough funding to enable their expansion and survival. There

is little empirical research on how financial support enhances SME performance, especially under SMEDAN, despite the fact that the value of financial aid is widely recognized. This study uses a mixed-approaches approach, although the majority of earlier research has either employed qualitative or quantitative methods. The objective of this study is to provide a comprehensive evaluation of the impact of financial assistance on SME performance and examine why government support programs have not fully achieved their intended outcomes.

2 | LITERATURE REVIEW

2.1 | The Concept of Small and Medium Enterprises

Different nations and organizations have different definitions of SMEs. The majority of definitions, occasionally with industry-specific variants, are based on quantitative factors like sales, assets, and personnel counts. Government definitions of SMEs are also influenced by corporate culture, population size, industry, and political considerations, according to Hunjra et al. (2021). While Gunday et al. (2021) contended that applying a single definition across nations at varying stages of development results in inefficient resource allocation, Bartlett suggested that definitions should be industry-specific. They proposed that a metric that compares turnover to the gross national income per capita at purchasing power parity would be more suitable. According to the literature on SMEs, definitions differ around the world based on variables like economic growth, SMEs' size, and the difficulties they encounter. SMEs in Nigeria are often categorized according to their yearly turnover, number of employees, and asset base (excluding land). The Federal Ministry of Industries defines a small business as one that employs less than 100 people and has total assets under N50 million. SMEs are defined by the National Council of Industries as companies with total expenses up to N200 million (excluding land).

2.1.1 | SME Performance

According to Sefiani and Bown (2023), performance metrics are employed to evaluate whether organizational objectives have been met. Owners of businesses place a high priority on performance, which is impacted by management techniques. According to Gbandi and Amisah (2024), performance is dependent on efficient management at different levels. Financial measures like profitability (such as return on sales and return on assets) and non-financial elements like employee happiness, product quality, and corporate social responsibility are examples of performance indicators.

2.1.2 | SMEDAN and Financial Assistance

To encourage and manage the growth of the MSME sector, the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) was founded in 2003. In Nigeria, SMEDAN serves as the main organization for fostering micro, small, and medium-sized businesses. Giving entrepreneurs access to the funding, technology, and entrepreneurial know-how required

for long-term economic growth is the agency's goal. Ntiamoah and Kwamega (2016) assert that funding is necessary for the expansion and innovation of businesses. Nigeria has established a number of government programs and financial organizations, including the Industrial Development Bank, to offer SMEs discounted loans. Although SMEDAN does not provide loans directly, it does assist in facilitating credit availability by making sure SMEs fulfill the requirements set forth by banking institutions (Eniola, 2022; Mayuran, 2016). These include delivering a business plan and other financial paperwork, applying for a loan, and having a bank account. SMEDAN has established a Credit Information Portal to help SMEs find pertinent information about available financial resources in an effort to significantly improve access to credit.

2.1.3 | Bank of Industry Bottom of the Pyramid Financing

A collaborative effort between microfinance institutions and the Bank of Industry (BOI), the Bottom of the Pyramid (BOP) Scheme seeks to increase financial inclusion and loan availability for underbanked or underserved groups. BOI has partnered with microfinance banks (MFBs) under the National Economic Empowerment and Development Programme (NEDEP) to provide low-interest loans to these banks, which in turn provide single-digit interest loans to economically productive but underprivileged entrepreneurs. By growing the number of participating MFBs, NEDEP hopes to increase the program's developmental impact nationwide (Gottschalk & Solli-Saether, 2015).

2.1.4 | Cooperative Lending

In order to alleviate the collateral requirements that small and medium-sized businesses (SMEs) usually encounter, the cooperative financing model was established. With the help of guarantors, cooperative groups can now obtain loans up to 10 million naira without the need for conventional collateral. The BOI's yearly interest rate of 9% is far less than what the nation's commercial banks charge (Sanusi, 2023).

2.1.5 | BOI State Counter-Part Matching Scheme

To increase SME financing at the state level, the BOI-State counterpart matching fund was established. This is a joint fund in which the BOI matches a state's fixed loan contribution to micro, small, and medium-sized businesses (MSMEs). Interest rates on loans made under this program range from 5% to 10% annually. NEDEP intends to broaden the scope of this program to include all federation states, in addition to the present 17 participating states that collectively contribute more than 14 billion naira. According to Ketley et al. (2022), this program promotes financial inclusion and assists state governments in fostering enterprise development nationwide.

2.1.6 | Alternative Securities Market (ASEM)

High-growth SMEs can now access long-term finance through the capital market thanks to the Nigerian Exchange's Alternative Securities Market (ASEM). Despite being a recent project, ASEM is a redesigned version of the Second-Tier Securities Market (SSM), which was created in 1980 with mid-sized businesses in mind. According to Umukoro and Ayozie (2023), ASEM adds the following additional features:

- The use of chosen advisors to assist companies in fulfilling listing criteria.
- The incorporation of institutional service providers that assist SMEs in domains such as accountancy and corporate governance.
- The selection of well-known corporations or company executives as growth ambassadors to support ASEM and entice SMEs to list.

Since its introduction in April 2013, no company has raised financing using ASEM, despite the initiative's promise. Nonetheless, there is strong evidence that certain SMEs are capable of doing so.

2.1.7 | Benefits of ASEM

Taiwo et. al, (2021) noted that ASEM offers several key benefits:

- It solves a significant issue that SMEs in Nigeria experience by assisting them in raising long-term finance at advantageous interest rates.
- It gives regular Nigerians a way to create wealth because investors in ASEM-listed companies may gain from the expansion of these enterprises.

2.1.8 | National Assembly Zonal Outreach Intervention Programmes

The zonal outreach intervention program of the National Assembly was started to support government initiatives to bolster the SME sector. To assist regional MSMEs, 97 million naira was disbursed among cooperatives in the states of Osun, Oyo, and Ekiti. It has been acknowledged that this program is

beneficial to the growth of MSMEs in these states. To further support MSMEs in their states, NEDEP collaborates with members of the National Assembly to increase their contributions to this program. NEDEP has implemented programs to increase MSMEs' access to local, regional, and global markets in recognition of the fact that they frequently lack market power. Among these efforts is a global network of over 75 Special Programs for Exporters (SPXs) in 41 nations. With the main objective of assisting Nigerian SMEs in engaging in competitive global supply chains, UNIDO and SMEDAN developed the country's first SPX. NEDEP helps MSMEs take advantage of this network through SMEDAN (OECD 2020).

3 | METHODOLOGY

The study included semi-structured interviews and a survey as part of a mixed-methods strategy. Survey participants were chosen using stratified and basic random sampling methods. SME operators were given 400 questionnaires in all; 360 of the replies were deemed suitable for analysis. Twenty semi-structured interviews with SME operators were also carried out. The results were estimated using multiple regression analysis and descriptive statistics, and the qualitative information from the interviews was analyzed using theme analysis. The study concentrated on small and medium-sized business owners registered with the Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN) in six states from each of Nigeria's geopolitical zones. Two hundred and sixty (260) valid responses from the 300 business owners who were chosen to take part in the study were returned for analysis. A questionnaire created by the researcher was used to gather the data, which was then coded and imported into SPSS version 22 for analysis.

4 | DATA ANALYSIS

In line with the study's objectives and research questions, the hypothesis tested is as follows:

H1: Financial assistance does not significantly impact the financial performance of SMEs in Nigeria.

Table 1a. Model summary of impact of financial assistance on financial performance

Mode	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.584	0.552	0.431	0.48792

a. Predictors: (Constant), credit/loan support is accessible, sufficiency of credit/loan
Source: Researcher's field survey result (2024)

The percentage of variance in the dependent variable (SMEs' financial performance) that the model can explain is shown in Table 1a, which displays the model summary. In particular, the R square value is 0.552, or 55.2% according to percentage terms. This indicates that 55.2% of the variation in SMEs' financial performance levels can be explained by the model.

Table 1b. ANOVA^b on impact of financial assistance on financial performance

S/N	Model	Sum of Squares	df	Mean Square	F	Sig
1	Regression	74.431	2	37.445	166.087	0.007 ^a
	Residual	86.274	357	0.360		
	Total	175.124	359			

a. Predictors: (Constant), credit/loan support is accessible, sufficiency of credit/loan

b. Dependent variable: Relative growth in business profit

Source: Researcher's field survey result (2024)

By looking at the significance column, Table 1b seeks to determine which factors are contributing in a way that is statistically significant and unique to the model. The degree to which the independent variable (financial help) influences the dependent variable (financial performance) is shown in this column. The findings demonstrate that financial aid makes a substantial and distinct contribution to the model. It is reasonable to accept the alternative hypothesis and reject the null hypothesis in light of these facts. Consequently, it may be said that financial performance is significantly impacted by financial help. Furthermore, it makes sense to accept the alternative hypothesis and reject the null hypothesis in light of the findings. This leads to the conclusion that SMEs' innovative performance is influenced by technical support and training. By dividing the Mean Square Regression (37.445) by the Mean Square Residual (0.360), the F-value is determined to be F = 166.087. The model in Table 1c is statistically significant, according to the data (Sig = 0.007).

Table 1c. Coefficients^a on impact of financial assistance on financial performance

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	0.921	0.276		4.221	0.006
Adequacy of credit/loan	0.143	0.043	0.171	3.432	0.002
Access to credit/loan assistance	0.688	0.063	0.554	10.768	0.011

a. Dependent variable: Financial performance

Source: Researcher's field survey result (2024)

4.1 | Result from Interviews

According to the majority of SMEs' operators surveyed, SMEDAN helps make financing more accessible. However, they also noted that it is difficult for businesses to remain competitive due to the high costs of short-term financing and the absence of long-term capital. This consequently has detrimental effects on Nigerian SMEs' ability to grow and develop sustainably, which has major ramifications for the advancement of the country. Several participants expressed their opinions regarding the sufficiency of loans offered by SMEDAN via its development initiatives, including:

"Bias has affected the program since it began in this local government, with some of us receiving inadequate loans and those who need it the most being unable to obtain it due to their lack of connections with SMEDAN officials" (Participant 8).

"Having the required collateral makes it simpler to get a bank loan, but whether you have the collateral or not, having a relationship with a government official is what matters for government loans or grants. Family members and close relatives receive loans (Participant 4).

The findings show that financial performance is greatly impacted by financial support. This suggests that offering financial assistance might lessen financial limitations, lower risks, and establish favorable economic conditions that encourage entrepreneurship, innovation, and higher profitability. Chandler's claim that financial aid can enhance financial success is supported by these findings. This is further supported by study by Amsden (2023), which points out that financial aid from the government can improve cash flow and immediately alleviate financial limitations. Similarly, the first theme in this study found that access to finance positively impacts performance, reinforcing the results of the first hypothesis. Evidence however, indicates that financing access is still insufficient. This backs up Anyanwu's (2022) study, which found that SMEs have a harder time obtaining funding than larger companies, which limits their ability to expand and thrive. Small and medium-sized businesses in Nigeria have a lot of potential for sustainable development, but the sector is still stagnant and makes up a small portion of the country's GDP. Furthermore, there is little diversification in the sector's operations, which are mostly dependent on imports.

5 | CONCLUSION

This study concludes that the success of businesses is significantly impacted by making financing more accessible. But there are still issues with underfunding, which are made worse by red tape and the expense of obtaining funding. The study's conclusions indicate that the primary factors affecting the expansion of SMEs are policies targeted at stabilizing interest rates, controlling inflation and currency rates, reducing and stabilizing tax rates, and allocating government investment on infrastructure. Thus, the interplay of these elements is essential to SMEs' survival in Nigeria. As a result, the policy consequence is that trade, fiscal, and monetary policy should be set up with the intention of achieving a clear and visible objective in response to the dynamics of domestic and global economic processes.

In light of these findings, the study suggests that the goals that SMEs seek to achieve through trade, monetary, and fiscal policies should be realistic and attainable in terms of growth when economic policy is created and designed. The report also suggests that the government reaffirm its dedication to furthering the growth of Nigeria's SMEs. In particular, the government ought to eliminate needless red tape and partiality, create a strong and well-planned venture capital industry, and encourage crowdsourcing and other financial organizations that can offer reasonably priced capital to vital industries like manufacturing and agriculture. This is vital as it will encourage the formation of new businesses, provide opportunities for expansion, create jobs for local workers, and support other businesses, as well as local, state, and federal governments through tax

revenue. The strategic allocation of financial support, including soft loans and investments, is essential for the success of any business.

6 | REFERENCES

- Akinruwa, T.E., Awolusi, O.D. & Ibojo, B.O. (2023). Determinants of Small and Medium Enterprises (SMEs) performance in Ekiti State, Nigeria: A business survey approach. *European Journal of Humanities and Social Sciences*, 25(1), 1-18.
- Amsden, A.H. (2023). *The rise of 'the rest': Challenges to the west from late-industrializing economies*. New York, NY: Oxford University Press.
- Anyanwu, C.M. (2022). The role of CBN of Nigeria in enterprises financing. Paper presented at Small and Medium Industries Equity Investment Scheme (SMIEIS) Seminar, Lagos: CBN Training Centre.
- Bubou, G.M., Siyanbola, W.O., Ekperiware, M.C. & Gumus, S. (2024). Science and Technology Entrepreneurship for Economic Development in Africa (SEEDA). *International Journal of Scientific and Engineering Research*, 5(3), 921-927.
- Eniola, A.A. & Ektebang, H. (2021). Government policy and performance of small and medium business management. *International Journal of Academic Research in Business and Social Sciences*, 5(2), 237-248.
- Eniola, A.A. (2022). The role of SMEs firm performance in Nigeria. *Arabian Journal of Business and Management Review*, 3(12), 33-47.
- Fatoki, O. (2024). Enhancing access to external finance for new micro-enterprises in South Africa. *Journal of Economics*, 5(1), 1-6.
- Gbandi, E.C. & Amisssah, G. (2024). Financing options for Small and Medium Enterprises (SMEs) in Nigeria. *European Scientific Journal*, 10(1), 327-340.
- Gottschalk, P. & Solli-Saether, H. (2015). Critical success factors from IT outsourcing theories: An empirical study. *Industrial Management & Data Systems*, 105(6), 685-702.
- Gunday, G., Ulusoy, G., Kilic, K. & Alpkan, L. (2021). Effects of innovation types on firm performance. *Hewitt-Dundas, N.* (2006). Resource and capability constraints to innovation in small and large plants. *Small Business Economics*, 26(3), 257-277.
- Hunjra, I.A., Jasra, M.J., Khan, A.M. & Rehman, A.R. (2021). Determinants of business of small and medium enterprises. *International Journal of Business and Social Science*, 2(20), 13-21.
- Ihua, U.B. (2019). SMEs key failure-factors: A comparison between the United Kingdom and Nigeria. *Journal of Social Sciences*, 18(3), 199-207.
- Jahanshahi, A.A., Nawaser, K., Khaksar, S.M.S. & Kamalian, A.R. (2021). The relationship between government policy and the growth of entrepreneurship in the Micro, Small & Medium enterprises of India. *Journal of Technology Management & Innovation*, 6(1), 66-76.
- Kehinde, A.O., Abiodun, A.J. & Adegbuyi, O.A. (2016). Small and medium scale enterprises: Pivotal to sustainable economic development-The Nigeria experience. *International Journal of Current Research*, 8(1), 1-10.
- Ketley, R., Lightfoot, N., Jakubec, M. & Little, M. (2022). Review of government interventions that promote access to credit for Micro, Small and Medium Enterprises (MSMEs) in Nigeria.
- Mayuran, L. (2016). Impact of entrepreneurship training on performance of small enterprises in Jaffna district. *Global Journal of Commerce and Management Perspective*, 5(2), 1-6.
- Ntiamoah, E.B., Li, D.M. & Kwamega, M. (2016). Impact of government and other institutions' support on performance of small and medium enterprises in the agribusiness sector in Ghana. *American Journal of Industrial and Business Management*, 6(2), 558-567.
- OECD (2020). *Small and medium-sized enterprises: Local strength, global reach*, OECD policy brief. OECD (2008). *Intellectual assets and value creation: Synthesis report, organization for economic co-operation and development*.
- Okonkwo, N.O. & Obidike, C.P. (2016). Medium scale enterprises financing in Nigeria: Problems and prospects. *International Journal of Innovative Social Sciences & Humanities Research*, 4(1), 77-86.
- Sanusi, J.O. (2023). Overview of government's effort in the development of SMEs and the emergence of Small and Medium Industries Equity Investment Scheme (SMIEIS). Presented at the National Summit on SMIEIS organized by the Bankers' Committee and Lagos Chamber of Commerce and Industry (LCCI), Lagos, Nigeria.
- Sefiani, Y. & Bown, R. (2023). What influences the success of manufacturing SMEs? A perspective from tangier. *International Journal of Business and Social Science*, 4(7), 15-29.
- Shamsuddoha, A.K. & Ali, M.Y. (2020). Mediated effects of export promotion programs on firm export performance. *Asia Pacific Journal of Marketing and Logistics*, 18(2), 93-110.
- Taiwo, J.N., Falohun, T.O. & Agwu, M.E. (2021). SMEs financing and its effects on Nigerian economic growth. *European Journal of Business, Economics and Accountancy*, 4(4), 37-50.

Umukoro, F. & Ayozie, V.U. (2023). Small and Medium Scale Enterprises (SMES) in Nigeria the marketing interface. *Global Journal of Management and Business Research Marketing*, 13(9), 1-12.