



## EFFECTS OF FEDERAL GOVERNMENT FINANCIAL POLICIES

### ON SMALL BUSINESS DEVELOPMENT IN NIGERIA

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#### Abstract

**S**mall business stood out to be one activity, noticed anywhere, at different level of measures and trend in Nigeria. The development of small business in Nigeria was

predicated on the financial policies of the Federal Government of Nigeria. If only the Federal Government could make financial

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policies tailored towards the development of small business, then the development of small business would be achieved. However, some financial policies already made by the Federal Government were recognized. The capacity of small business to attract attention for development could not be overemphasized. The operations of small business were critically

tied to the financial policies of the Federal Government to the extent that small business developments were sometimes at a retrogressive stage or progressive stage, depending on the government financial policies. This research understudied the effects of Federal Government financial policies on small business development in Nigeria. The research adopted the descriptive survey design with primary data. The population of the study was 1,870, made up of small business owners. Yamane formula was adopted to arrive at a sample size of 330. Simple random sampling method was used for the selection of small business owners with a distribution of 365 copies of questionnaire as self-administered. However, 354 responded and retrieved from small business owners. The five-point Likert-scale was adopted. The questionnaire was applied and validated by four very senior lecturers and professionals in the field of small business and government financial administration. Data were analyzed by the use of chi square, employed to test the hypothesis. Finding revealed that the Federal Government financial policies in existence on small business development had no positive and significant

effect in the development of the business. In conclusion, the Federal Government financial policies had direct interest in the development of small business but lacked more strategies. More need to be done to have effects on small business. This research recommended that the Federal Government should directly involve and carry along, as never before, vast majority of small business owners when enacting policies for the development of small business and initiate a monthly assessment method of its financials policies on small business.

## **Introduction**

It is appreciable to notice that small business does exist in Nigeria. Small business existence in Nigeria is fundamentally, guided by the policies of the Federal government in terms of development, encouragement and rules and regulation. Small business activities are of different types hence there are different government policies governing the operations of the small business attributable to development. One of such federal government

policies is the Financial Policies. Government policies are financial resources provided directly by the government or through private lenders such as banks, with government backing which are meant for specific purposes. Various federal government agencies in Nigeria manage federal loans to aid small, business.

Onyedikachi, Mintah, and Abudu (2022) posit that good government policy for small and medium businesses is vital to most economies' long-term growth and prosperity. Also that effective government policy affects Small business long-term viability. There by increasing performance and economic growth.

Furthermore, that effective government policies would advance, expansion, and promotion

Starting and growing a business can be tough, especially when you're working with a limited budget. For small and medium-sized business owners in Nigeria, getting access to funds is often a major challenge. But there's good news! The federal government offers a range of grants and funding schemes designed to help businesses like yours thrive.

It should be noticed that all government policies have a significant impact on small businesses which could be negatively skewed or positively skewed. These policies are enacted to regulate, support, and create an environment conducive to the growth and success of small enterprises. The effects of government policies on small businesses can be observed in several areas highlighted in this file

According to Ajileye (2024), the Federal Government Grants and Schemes for Small business in Nigeria in 2024 include: **Presidential Conditional Grant Scheme**, provides financial help to eligible small business owners, especially nano businesses, without the need to repay. **Development Bank of Nigeria (DBN) Loans**, provides wholesale financing to microfinance banks and other financial institutions, which then on-lend to SMEs. This model ensures that SMEs have access to necessary funding at favorable terms, **Micro, Small and**

**Medium Enterprises (MSME) Development Fund** aims to support businesses affected by the economic downturn. This fund provides payroll support, grants for artisans, and guaranteed off-take schemes to sustain businesses and protect jobs, **Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) Grants** for small businesses and entrepreneurs. **Federal government Intervention Funds** targeted at different sectors, aimed at boosting economic activities and ensuring inclusive growth. **Agricultural Credit Guarantee Scheme Fund (ACGSF)** to support the agricultural sector, a critical component of Nigeria's economy. It provides guarantees to banks to encourage them to lend to agriculture-focused SMEs. And **Bank of Industry (BOI) Loans** offers various funding options tailored to SMEs across different sectors. These loans are designed to enhance the capacity of businesses to expand, innovate, and improve their operations.

Okamgba (2023) noted that over the past year, entrepreneurs have grappled with a range of challenges, including the high cost of doing business attributed to naira scarcity, fuel shortages, fuel subsidy removal, exchange rate reforms, and inadequate power supply. Anudu, o. (2017) posit that the micro, small and medium enterprises (MSMEs) have felt the pinch of Nigeria's policy failures the most. He further said policy uncertainties in the different administrations have continued to hit small business hard with accompanying constant policy reversals.

It is good to notice that the success of small business is very important for the general economic growth and development of Nigeria. The government's fiscal policy, if properly made, organized and effectively implemented, could positively and significantly contribute to the success of small business. Providing conducive business environment, access to affordable credit, and appropriate incentives for growth are important policies if given consideration as never before by the Federal government

## **HYPOTHESIS**

**H<sub>0</sub>:** Federal Government financial policies in existence have no positive and significant effect on small business development in Nigeria

**H<sub>1</sub>:** Federal Government financial policies in existence have positive and significant effect on small business development in Nigeria

## **LITERATURE REVIEW**

Egor, Obodagu, Gwunyenga, Odo, and Chilokwu (2023) recommended that the government should improve all the components part of the real Gross Domestic Product which will help develop the Small and Medium Enterprises subsector. The government should invest more on infrastructure like electricity, roads and technology that will enhance the development of the subsector. Isa (2017) posits there be promotion of capital to the small scale business owners for effectiveness of their business activities, stabilizing the government policies which will favour small scale business for efficient production and contribution to economy of the state and workshop and seminars should be organize to educate business holders managers and their workers..

Hawtrey (2010) propounded this theory. Hawtrey (2010) posited that whenever there is a change in the level of money flow in a given economy which involves business activities, it same causes fluctuations in the economic activities hence business cycle change is as a result of fluctuations in the monetary and credit markets like the banks. The changing situations in the supply of money and the banks behaviour on loans availability are the main causal factor of the cyclical process. Hawtrey (2010) maintained that, with a consistent increase in the supply of money through the banking activities, small business has the greater tendency to increase their profitability level, turnover level and branch expansion. The reverse is the case when there is no increase in the supply of money to the small businesses through the loan activities of the banks. The focus of the supply of money is greatly associated with the loan made available by the banking system. Small businesses get to

observe upswing when the banks make loan widely available for small businesses.

According to Emefiele (2019), total aggregate loans granted by Microfinance Banks (MFBs) to micro small and medium enterprises (MSMEs) in Nigeria stood at ~~₦~~482.896 billion as at December 2018. Emefiele (2019) disclosed that the Central Bank of Nigeria (CBN) disbursed a total aggregate loan of ~~₦~~482.896 -13824 in 2018. He added that the CBN was working to increase the share of small businesses bank loans as percentage of total credit to at least 20 percent by 2020. Emefiele (2019) was specifically concerned about the length of period at which small businesses request for the utilization of bank loan. Emefiele (2019) noted that data from the licensed credit bureaus indicated that the operations of banks had helped to improve financial inclusion among small holder peasant farmers, artisans and other small business operators. Emefiele (2019) further said, CBN has been working hard towards increasing access to financial services for the economically active small businesses in order to enhance job creation and poverty reduction. The CBN governor went ahead to say that by increasing bank loan to small business it will contribute to the performance and the production base for credible strategy in increasing financial inclusion and reducing unemployment.

Research by Evbuomwan, Ikpi, Okoruwa, and Akinyosoye (2012) showed that 75.7% of their finding from respondents depended mostly on personal funds to finance their business, thereby showing that the banking system empowered to assist small businesses in business finance is not providing enough support to new economic initiatives and in particular to the expansion of small businesses.

## **METHODOLOGY**

The study employed the descriptive survey design. The source of data is primary. The population of the study was 1,870, made up of small business owners. Yamane formula was adopted to arrive at a sample size of 330.

Simple random sampling method was used for the selection of small business owners with a distribution of 365 copies of questionnaire as self-administered. However, 354 responded and retrieved from small business owners. The instrument for the data collection is a self-administered interview which comprised of both open-ended and close-ended interview questions. The five-point Likert-scale nature of interviews which ranges from “strongly agree” to “strongly disagree” (1 = ‘Strongly Agree’, 2 = ‘Agree’, 3 = ‘Neutral’, 4 = ‘Disagree’ and 5 = ‘Strongly Disagree’) was also used for this study with a distribution of 365 copies of questionnaire as self-administered. However, 354 responded and retrieved from small business owners. The questionnaire was applied and validated by four very senior lecturers and professionals in the field of small business and government financial administration. The method of data analysis is by Chi-square statistical tool to test the hypothesis. Chi-square ( $X^2$ ), as a method for testing hypothesis, measures the reliability and significance of data to see whether deviations of the actual observations (observed frequency) from the expected is significant so that it may lead to the acceptance or rejection of the null hypotheses. This is to see deviations of the actual observations (observed frequency) from the expected that led to the acceptance or rejection of the null hypotheses. Functional reliability test is used to test for the internal consistency of each of the interview questions (variables) stated in the interview. For the appropriateness for the study, the most convenience method for testing the internal consistency is the Cronbach’s Alpha. Mugenda & Mugenda (2003) said, the survey design is process that describes the exact situation with the purpose of collecting data to test hypothesis or to answer specific questions concerning the present position of the subject research. It allowed the collection of large sum of required data from the standard population in highly effective and efficient manner using questionnaires (Micheni, 2011). The intent was to establish, confirm or validate the relationship and to develop the generalizations that contribute to theory. There are overall

philosophical writing strategies and ethical consideration for research which include: quantitative, qualitative and mixed methods research (Creswell 2017) with ethical issues that arise during studies. Chih-Pei, & Yan-Yi (2017) posited the various contributions of John W. Creswell on research design.

### Decision Rule

If the P-value is greater than the level of significance of 0.05, accept  $H_0$  or otherwise

The chi-square formula is thus:

$$\text{Chi square} \quad \chi^2 = \frac{\sum [(fo - fe)^2]}{fe}$$

Where:

O = Observed value (frequency);

E = Expected value (frequency) and

$\Sigma$  = Summation sign.

Degree of freedom = (Rows - 1) (Column -1)

Level of significance = 0.05

### Restate of Hypothesis

**H<sub>0</sub>**: Federal Government financial policies in existence have no positive and significant effect on small

business development in Nigeria

**H<sub>1</sub>**: Federal Government financial policies in existence have positive and significant effect on small

business development in Nigeria

**Table 1: Representation of the study population**

Transporter s	Medical Stores	Car Tyres	Building Materials	Provision Stores	Boutique s	TOTA L
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44	87	98	34	55	36	354
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Source: Researchers Survey

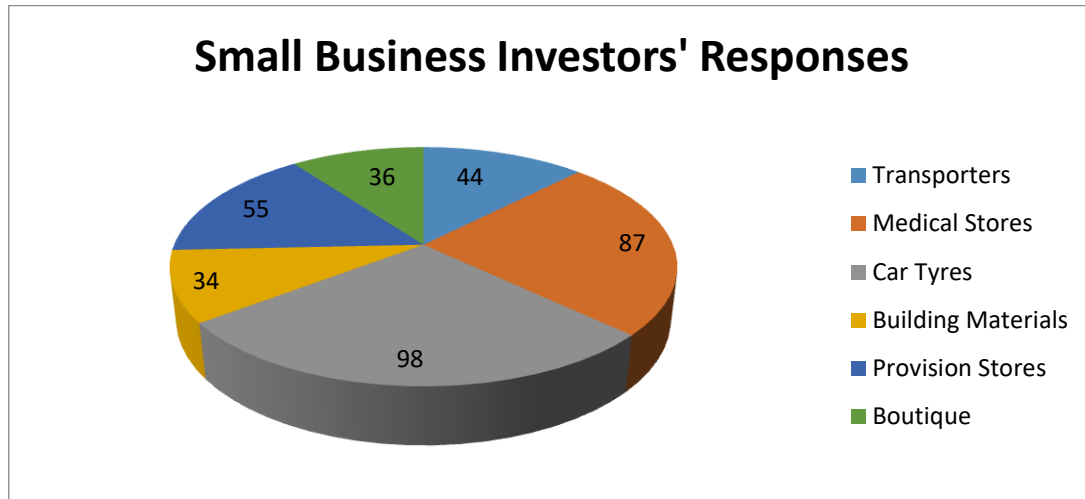


Fig.1 Graphical representation of responses

Source: Researcher's presentation

There is the need to calculate the expected frequencies if we are to test the observed frequencies (Table 1) against what we would expect by chance, since we have six concerned respondents of Small Business investors. Fig 1 is the graphical representation of the respondents. We would expect one-fifth of the individuals to fall in each of the categories. One-fifth (20%) of 354 is 71. So if the selection of the respondents is largely a chance pattern, we would expect to find 71 respondents in each category.

Table 2: Observed and Expected Frequencies for the Selection of Majors

Small Business Owners	O (observed frequency)	E (expected frequency)	O-E	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> /E
Transporters	44	71	-27	729	10.27
Medical Stores	87	71	16	256	3.61
Car Tyres	98	71	27	729	10.27
Building Materials	34	71	-37	1369	19.28
Provision Stores	55	71	-16	256	3.61
Boutiques	36	71	-35	1225	17.25

TOTALS	354	426			64.29
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### Source: Researchers Calculation

Table 2 shows the observed and expected frequencies for each small business investors responses by computing the difference between them (O-E), (O-E)<sup>2</sup>, divides the square by the expected frequencies (O-E)<sup>2</sup>/E, and sums those quantities to give us our  $\chi^2$ , which is 64.29, the P-value.

### Recast the Decision Rule

If the P-value is greater than the level of significance of 0.05, accept  $H_0$ . Therefore, since the P-value is greater than the level of significance of 0.05, we accept the  $H_0$  which states that:

$H_0$ : Federal Government financial policies in existence have no positive and significant effect on small business development in Nigeria

### DISCUSSION OF FINDINGS

Since the P value of 64.29 from the chi-square is more than the level of significance 0.05,  $H_0$  will be accepted. That is: **Ho-null:** Federal Government financial policies in existence have no positive and significant effect on small business development in Nigeria. Meaning the financial policies of the Federal Government in existence have not positively and significantly, affected small business development in Nigeria. In support of this, Isa (2017) posits there be promotion of capital to the small scale business owners for effectiveness of their business activities by, stabilizing the government policies which will favour small scale business for efficient production and contribution to economy of the state

### CONCLUSION

In conclusion, the Federal Government financial policies had direct interest in the development of small business but lacked more strategies. More need to

be done by those in charge of making these policies noting the significance of this subsector in the economy of Nigeria.

## **RECOMMENDATIONS**

The research recommend that the Federal Government should directly involve and carry along, as never before, vast majority of small business owners in their various business capacities when enacting policies for the development of small business. The Federal Government should initiate a monthly assessment method of its financial policies on small business. This will be like an appraisal system of performance of these policies on small business..

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