

## **ASSESSING THE IMPACT OF GOVERNMENT FINANCING ON THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN SOKOTO METROPOLIS, SOKOTO STATE**

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### **ABSTRACT**

*The main objective of establishing Small and Medium Enterprises SMEs is to enhance job creation, promote economic growth and reduce poverty. Small and Medium Enterprises constitute the smallest businesses. They are found in most sectors of the economy, occupying every available space in the form of enterprises such as provision stores, bakeries, pure water production, food processing industries, solar power installation etc. Therefore, this research will assess the impact of government financing on the performance of SMEs. For this research study, both descriptive and inferential statistics will be used. Chi-square would serve as a method of data analysis to determine the relationship between the independent and dependent variables. Primary data will be used in the study. The findings of the study show that government funding of SMES through the National Bank of Industries ban on the importation of goods, short registration period, and skills acquisition programs play a more significant role in improving the productivity of SMES.*

**Keywords:** SMEs; Economic growth; Performance

### **INTRODUCTION**

The financing of small and medium enterprises investment today is the central preoccupation in various economies in the world and Nigeria in particular; there is a consensus among such enterprise stakeholders in the country that accessing finances and financial services is the major problem affecting the sector and the economy.

Adequate and access financing is necessary for the survival of any business enterprise and considering the contribution of micro, small, and medium enterprises to employment generation and capacity building. Based on those facts, the successive Government in Nigeria initiated programs and policies toward financing SMEs to enhance the availability of funds for enterprise development in the country (Sanusi, 2013).

Some of these policies include the one issued by the Central Bank of Nigeria (CBN) annual guidelines for banking operations in the country. Thus, guidelines have consistently served as a policy directing commercial banks to extend Ten (10) persons of all loan advances to micro, small and medium enterprises. The policy was later modified and allowed banks to extend 10% of their profit before tax to such enterprises. Also, to encourage micro, small and medium entrepreneurs to secure loans, the Government developed policies and programs. Nigeria export import Bank (Nexim) was established to offer incentives of, guarantees and facilities to local entrepreneurs to

boost export, and the introduction of the national credit guarantee scheme (NCGS) aimed at providing financial support, to mention just but a few (Moruku, 2011)

Although, if efficiently carried out/implemented, the economy would be able to mobilize or yield proportionate results in terms of financial accessibility, no viable project like micro, small and medium enterprises is frustrated due to lack of finance (Moruku, 2011)

Small and medium-scale enterprises (SMEs) have been generally acknowledged as the bedrock of the industrial development of any country. Apart from the numerous goods and services, they provide a veritable means of large-scale employment as they are usually labor-intensive (Yerima et al., 2007). In developing countries, the Nigerian Government has, since the 1970 "s shown increased interest in financing and promoting small and medium-scale enterprises for three main reasons. According to Owuallah (2015), these reasons are the Transformation of traditional or indigenous industry, Increase in job creation, and Redistribution of wealth and income.

They also provide training grounds for entrepreneurs even though they rely more on local materials. Osaba (2017) says that the distribution of goods has continued to be the only viable and reliable option for any economy's development, growth and survival. The work explores the role and contribution, constraints and prospects of the small as it contributes to the growth and development of the Nigerian economy, and the government efforts, internal and external support. (SMES) have been fully recognized by government and development experts as the main engine of economic growth and a significant factor in promoting private sector development and partnership (Adeusi, 2017).

Ajakaiye (2013) states that the central bank of Nigeria (CBN) has initiated a project for baseline economic studies to develop an integrated information system for SMEs to foster the better implementation of small and medium industries equity investment schemes (SMEs). The Federal Government has facilitated SMEs by establishing the National Association of Small and Medium Industries (NASSI), the Central for management development (CMD), and Fund for Small Scales Industries (FUSSI). This is because she is concerned for the survival of the SMEs. SMEs in Nigeria can be categorized into urban and rural enterprises. The former can be subdivided into organized and unorganized enterprises. The organized ones tend to have paid employees with a registered office.

In contrast, the unorganized category is mainly made up of artisan who works in open space, in temporary wooden structures, or at home and employs little or no salaries workers (Lied Holm and Mead, 2017, World Bank, 2012). The owner of SMEs are people of average means with specialized or no specialized skill; therefore, because of financial constraints, location of the market, managerial skills, lack of information etc., they cannot meet their target objective. As a result, efficiency and productivity could be higher, and due to the complex condition that Nigerians face, SMEs still need to succeed. As a result, we cannot relax about the situation. Therefore, This research will determine SMEs' difficulties in the Sokoto metropolis.

There has been public outcry and critics of Governments policies and programs, especially toward the financing of small and medium-scale enterprises; society sees the Government as

neglecting its functions and being responsible to society by paying little attention to the public, which they are meant to serve (Akachukwu, 2014).

Finance has been identified as a significant underlying requirement and a critical input factor in the development and industrialization effort. Plant, machinery and equipment must be paid for, as well as the development of managerial and technical expertise. The need for finance is essential in creating a general economic environment conducive to sustained economic development. Therefore, The development task must involve converting finance into the requisite factor inputs and efficiently deploying such inputs.

Without formal credit markets, informal sources exist to finance the SME sub-sector. Such sources for the provision of finance to the SME sub-sector include savings/retained earnings, contributions from friends and relatives, isusu, co-operative and thrift societies etc. (berisha-Namani, 2009). Though notwithstanding both the formal and informal sources of finance to the sub-sector, these sources could not satisfy their financial demands to the impediments we have noted before militating against securing loans by the SMEs. Today in Nigeria, both the existing and emerging indigenous entrepreneurs need financial resources from international and domestic sources. Poor funding of SMEs has been one of the factors responsible for the country's sluggish economic growth and development.

Based on the preceding and given the perennial problems of financing SMEs, this study seeks to investigate the better ways and practical strategies SMEs in Sokoto use to finance their operations and the effects on their businesses (Jamodu, 2011).

The objectives of the study are as follows:

1. To examine the impact of Government financing on the performance of SMEs in Sokoto Metropolis.
2. To identify whether Government finances SMEs through loans or grants.
3. To determine the socio-economic impact of SMEs on the people in the study area.

To identify the viability or otherwise of government funding programs on SMEs.

## **LITERATURE REVIEW**

Several works of literature were captured in this research which discusses the concepts of Government financing and Small and Medium Enterprises.

### **Concept of Government Financing**

Public spending enables governments to produce goods and services or purchase goods and services needed to fulfill the Government's economic objectives. Over the years, we have seen significant changes in the role and size of governments worldwide. Public spending increased remarkably in the 20th century when governments worldwide started spending more on education, healthcare, and social protection. At present, the governments of developed countries spend more as a percentage of Gross Domestic Product (GDP) than the governments of developing countries (Stiglitz, 2010).

Also, governments worldwide relied upon the private sector to produce and manage a country's goods and services, and public-private partnerships, in particular, became a popular mechanism for governments to finance, design, build, and operate infrastructure projects. Government spending refers to the public sector's spending on acquiring goods and providing services such as education, healthcare, social protection, and defense.

In national income accounting, when the Government acquires goods and services for current use to directly satisfy the community's individual or collective needs and requirements, it is classified as government final consumption spending. When the Government acquires goods and services for future use, it is classified as government investment. This includes public consumption and public investment, and transfer payments consisting of income transfers

### **Purpose of Government Financing Smes in Nigeria**

Thus, it is evident that Public finance is essential for the growth and development of a country. The Government of a country can push up the industrial and economic development of the country, provide more employment opportunities, encourage investments and savings in the desired direction and increase social benefits through public expenditure. It, therefore, affects the country's overall economic and social system. (Adhikari & Hari Prasad 2007)

The central importance of government finance is listed below:

**i. Steady-state economic growth:** Public finance is vital to achieving a sustainable high economic growth rate. The Government uses fiscal tools in order to bring an increase in both aggregate demand and aggregate supply. The tools are taxes, public debt, public expenditure and so on.

**ii. Price stability:** The Government uses public finance to overcome form inflation and deflation. Inflation reduces indirect taxes and general expenditures but increases direct taxes and capital expenditures. It collects internal public debt and mobilizes for investment. In the case of deflation, the policy is just reversed.

**iii. Economic stability:** The Government uses fiscal tools to stabilize the economy. During prosperity, the Government imposes more taxes and raises the internal public debt. The amount is used to repay foreign debt and invention. The internal expenditures are reduced. During the recession, the case is just reversed.

**iv. Equitable distribution:** The Government uses the revenues and expenditures of itself in order to reduce inequality. If there is a high disparity, it imposes more taxes on rich people's income, profit and properties and on the goods they consume. The money collected benefits poor people through subsidies, allowances, and other direct and indirect benefits.

**v. Proper allocation of resources:** Government finance is essential for adequately utilizing natural, artificial and human resources. For it, on the production and sales of less desirable goods, the Government imposes more taxes and provides subsidies or imposes taxes lightly on more desirable goods.

**vi. Balanced development:** The Government uses revenues and expenditures to erase the gap between urban, rural, agricultural, and industrial sectors. For it, the Government allocates the budget for infrastructural development in rural areas and direct economic benefits to the rural people.

**vii. Promotion of export:** The Government promotes export by imposing less tax, exempting from taxes, or providing subsidies to export-oriented goods. It may supply the inputs at subsidized prices. It imposes more taxes on imports and so on.

**viii. Infrastructural development:** The Government collects revenues and spends on constructing infrastructures. It has to keep peace, justice and security too. It has to bring socio-economic reformation too. It uses the revenues and expenditures as fiscal tools for all these things.

### **Concept of Small and Medium Scale Enterprises**

According to Ranjani (2012), SMEs and entrepreneurship are recognized worldwide as critical economic growth and development sources. Kolawole (2013) contends that small and medium-scale enterprises are vital in developing economies. This view is supported by Chijah and Forchu (2010) when they argue that promoting micro-enterprises in developing countries is justified in their abilities to faster economic growth, alleviate poverty and generate employment. According to Nigeria's National Council on Industry, an SME is defined in terms of employment, i.e., as one with between 10 and 300 employees. Currently, small and medium-sized enterprises are defined by their size. In the European Union, SMEs are defined as small or medium-sized if it has no more than 250 employees and not more than 50 Million Euros turnover respectively, a balance sheet total of less than 43 Million Euro and not more than 25% of the shares of such an enterprise are in the ownership of another enterprise.

The Small and Medium Industries Equity Investment Scheme (SMIEIS) in Nigeria defines small and medium enterprises (SMEs) as "enterprises with a total capital employed of not less than N1.5 million, but not exceeding N200 million, including working capital, but excluding the cost of land and with a staff strength of not less than ten and not more than 300". The benefits of SMEs must be considered. They include; contributions to the economy in terms of the output of goods and services and the creation of jobs at relatively low capital costs. It is a vehicle for the reduction of income disparities, thus developing a pool of skilled or semi-skilled workers as a basis for future industrial expansion; improving forward and backward linkages between economically, Socially and geographically diverse sectors of the economy provide opportunities for developing and adapting appropriate technological approaches and also offer an excellent breeding ground for entrepreneurial and managerial talent.

Kolawole (2013) suggests five essential and interrelated gaps in small enterprise performance comparing stylized enterprises in developing and industrialized economies. These five "gaps" must be addressed to improve prospects for high-impact small enterprise development in developing economies: Role of entrepreneurship. In many developing countries, "necessity entrepreneurship" prevails, versus greater "opportunity entrepreneurship" levels in industrialized

countries, which tend to be led by higher skilled and better-capitalized entrepreneur's firm growth and upgrading.

In many developing countries, only a tiny proportion of micro and small firms grow beyond a certain threshold due to needing more specific management and marketing skills.

However, the Association of enterprises opportunity (AEO) in the united states has defined a micro-enterprise as a business with five or fewer employees, and many of these businesses have no employees other than the self-employed owners. Additionally, such a business generally needs less than \$35,000 in loan capital and cannot access the conventional commercial banking sector. The European Union defines Micro enterprises as those that meet two of the following three (3) criteria and have not failed to do so for at least ten years

- i. Fewer than 10 employees
- ii. Balance sheet total below 2 million euros
- iii. Turnover below 2 million Euros.'

Generally speaking, in developed countries, Micro-enterprises comprise the most minor and (by size) of the small business sector, whereas, in developing countries, it comprises the vast majority of the small business sector due to the relative lack of formal sector jobs available for people with low incomes. These entrepreneurs operate not by choice but out of necessity.

### **Characteristics/Features of SMEs**

In line with the stipulations of the Committee for Economic Development Standard (1980 in Osuala, 2014) small, scale businesses must meet the following criteria:

- a. Management is not independent
- b. Capital is supplied, and an individual or small group of people
- c holds ownership. The area of operation is mainly local
- d. The business is small when considered the most significant unit in its field. In terms of size, the measures used to classify SMEs include employment, assets and revenue.

The Small and Medium Scale Enterprise (SME) policy of 2007 categorized them as follows:

<b>S/N</b>	<b>Size category</b>	<b>Employment</b>	<b>Assets (n million) excluding land and building)</b>
<b>1.</b>	Small Enterprises	10 – 49	5 less than 50
<b>2.</b>	Medium Enterprises	50 -199	50 less than 500

**Source: SMEDAN, 2018**

### **METHODOLOGY**

The study was a descriptive survey design concerned with data collection or describing and interpreting the existing problems. The instrument for data collection was a questionnaire. The



response scale was structured in line with the 4-point Likert scale of measurement: strongly agree (S.A.) 4 points; (A) = 3 points; Disagree (D) = 2 points and Strongly Disagree (S.D.) = 1 point.

### **Population**

The population of the study is the entire registered small and medium enterprises in the Sokoto metropolis; number of registered SMEs in Sokoto metropolis is 841 (SMEDAN, 2013).

### **Sample Size and Sampling Procedure**

The study will adopt Yaro Yamane's formula to arrive at the study sample.

$$n = \frac{N}{1 + N(e)^2}$$

Where            n = Sample size  
                      N = Population (Number of SMEs)  
                      E = Margin of error

Then

$$\begin{aligned} n &= ? \\ N &= 841 \\ e &= 5\% \\ n &= \frac{841}{1+841(0.05)^2} \\ n &= \frac{841}{1+2.1025} \\ n &= \frac{841}{3.1025} \\ n &= 271 \end{aligned}$$

The sample of this study is 271, which will be selected randomly from different sectors. A simple random sampling method guarantees that every programmed location has the same probability of being chosen for the sample, giving every part of the population an equal chance of being selected.

### **DATA PRESENTATION AND ANALYSIS**

The extent to Which Government Policy Put in Place to financially support small and medium enterprises SMEs to improve the Productivity of SMEs in Sokoto Metropolis, Sokoto State.

The analysis of the extent of government intervention funds through the Bank of the Industry as a government policy for small and medium enterprises SMEs in the Sokoto metropolis. The result shows that 50.0% of the total respondents agreed that extent of government intervention funds through the bank of the industry is a government policy to support SMEs, 24.1% of the total respondents stated that it is not adequate, and 25.9% of the total respondents are undecided with the statement.

Is banned on importation of goods supporting local producers/ owners of SMEs in Sokoto metropolis, Sokoto State? Analyzing the extent of the ban on importing locally made goods is a policy of the Government to support small and medium enterprises in the Sokoto Metropolis,



Sokoto State. The result shows that 91.4% agreed that extent of the ban on the importation of locally made goods is a policy of the Government to support small and medium enterprises to improve the productivity of SMEs in Sokoto Metropolis, Sokoto State is effective. In comparison, 8.6% of the respondents stated it is ineffective.

Reducing the days through which new Small and Medium Enterprises register their businesses improves the productivity of SMEs in Sokoto Metropolis, Sokoto State. The analysis of the extent of the review of the business registration period and procedure as a government policy supports SMEs in Sokoto Metropolis, Sokoto State. The result shows that 96.6% agreed that the extent of the review of the business registration period and procedure as a government policy supports SMEs and improves the productivity of SMEs in Sokoto Metropolis, Sokoto State, is compelling. In comparison, 3.4% of the respondents are undecided about the statement.

Do skills acquisition programs introduced by the Government at all levels improve the productivity of Small and Medium Enterprises in Sokoto Metropolis, Sokoto State? Analyzing the introduction of various skill acquisition programs as a government policy improves SMEs' productivity in Sokoto Metropolis, Sokoto State. The result shows that 86.2% agreed that extent of the introduction of various skill acquisition programs as a policy of the Government to improve the productivity of SMEs in Sokoto Metropolis, Sokoto State, is effective, 5.2% of the total respondents stated that it is not adequate, and 8.6% of the respondents are undecided about the statement.

## **CONCLUSION**

There is absolutely no doubt that Small and Medium Scale Enterprises contribute tremendously to the nation's economic development. Government intervention in financing SMEs has a significant effect on the performance of SMEs in Sokoto metropolis, Government policies and programs have a significant effect on SMEs performance of SMEs in Sokoto metropolis, and Government assisted schemes have a significant effect on SMEs performance of SMEs in Sokoto metropolis. It is a well-known fact that adequate capital is one of the pre-requisite for healthy and sound Small and Medium Scale Enterprises in Nigeria. In this research, it has been revealed that the Government played a significant role by offering loans, training and extending credit facilities to SME businesses. Other support offered by the Government included; advisory services, training and financing the start of businesses—the period of SME registration and skills acquisition programs.

## **RECOMMENDATION**

Emanating from the findings, conclusions and contributions of the study, the below recommendations are made:

- i. Government/institution support, especially in financial support, provides the needed financial lubricant that facilitates SME development in the country. However, there is a need for the Government to put in more effort in terms of policy formation and implementation to complement the efforts of the financial institutions.



- ii. Policies initiated by the Government should be funded efficiently. Policies aimed at rural development should top the lists of policies aimed at developing the already or semi-developed urban centers to reduce rural-urban migration.
- iii. Finally, Prospective business operators should conduct extensive feasibility studies to evaluate the viability of any proposed business to avoid investment in unprofitable ventures.

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