

# An Exploratory Study of the Impact of Government Policies on the Development of Small and Medium Enterprises in Developing Countries: The Case of Nigeria

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## ABSTRACT

This paper explores the effects of government policies on the development of Small and Medium Enterprises in developing countries through the examination of the case of Nigeria. Many research studies reported that SMEs in Nigeria have not benefited from the policies formulated by the government. This paper investigates the impediments to manufacturing SMEs growth and the needed pre-requisite environment for SMEs to benefit from government specific policies. The study adopted a qualitative methodology depending on face to face interviews with 20 SME owners and/or managers in five of the six geographical arears of Nigeria, 20 bank managers in the capital city of Lagos and 20 government officials located in the federal capital city of Abuja. The study unveils unique contextually novel insights, including particularly the distinctive processes and different relationships related to lenders decision. The research findings are consistent with those reported by other scholars in the field, and confirm that government policies and support in the areas of technology, infrastructure and finance affects the performance of SMEs to a great extent in Nigeria.

## KEYWORDS

Developing Countries, Government Policy, Nigeria, Small and Medium Enterprises, SMEs Development

## INTRODUCTION

The importance of small and medium enterprises (SMEs) for any country cannot be over-emphasised, but despite their internationally recognised importance, SMEs still face major challenges in many developing and emerging countries (Ayalew & Gashu, 2015; Eniola, 2014; Fatoki & Odeyemi, 2010). However, the challenges of business entry, survival and growth are often substantial (Adaramola, 2012). Sequel to this, financial resources and the inability to handle complex business management issues in a complicated and bureaucratic environment present major obstacles. Therefore, the need to improve the different elements that make up a good business climate should be carried out expeditiously (OECD, 2004).

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This article sets out to critically evaluate the effect of government policies in developing the small and medium enterprises (SMEs) in Nigeria, in order to gain an insight into how it affects their business performance. We seek to engage the perspective of the major stakeholders in the development of SMEs which are the government institutions, the banks and the SMEs owner/managers.

## **LITERATURE REVIEW**

Small and medium enterprises (SMEs) play a very vital role in every economy both in successful developed countries and developing countries (El-Gohary & El-Gohary, 2016; Khan & Khalique, 2014; El-Gohary et al., 2013; El-Gohary, 2012a, 2012b, 2011, 2010a, 2010b, 2009; El-Gohary et al., 2009a, 2009b, 2009c; Ariyo, 2008; Wiklund & Shepherd, 2005; Wong & Aspinwall, 2004). They perform some important roles like job creation (Farouk & Saleh, 2011; Deakins et al., 2001; Stanworth & Purdy, 2004), wealth creation which increases the economy size (Birch et al., 1993). Furthermore, SMEs utilise their limited resources efficiently and develop entrepreneurial skills (Karmel & Bryon, 2002; NIPC, 2003; Hussain, Millman, & Matlay, 2006; Poutziouris, 2003; Deakins, Logan, & Steel, 2001). Studies carried out by various authors, see Matlay and Westhead, (2005); Porter, (2006); Hussain, Millman, and Matlay, (2006); Harvic and Lee, (2002), suggests that SMEs contribute significantly to the social-economy and political infrastructure of developing and developed countries. However, the Nigeria government has been according little attention to this all-important sector for so long despite its numerous benefits (Adjebeng-Asem, 1998).

In the last decade, this trend has changes as the Nigerian government within its capacity is now according all necessary attention to the development of SMEs for accelerated economic growth and empowering its citizen for entrepreneurship and technology innovation (Oyelola, 2013). The major reason for the inadequate attention as suggested by SMEDAN (2011) emanated from the unavailability and paucity of credible and reliable database. This has fraught the major stakeholders to eve sustainable intervention strategies for the development of SMEs in Nigeria (SMEDAN, 2011). As a result of this, it has constrained the government and the policy makers to set an entrenched policy and have a baseline for meaningful comparison (Toby, 2007). This was corroborated by Brevoort and Hannan (2006) in their study that without comprehensive information on SMEs, very little will be known about their contribution to the economy.

In an effort to reposition and create efficient and sustainable SME sector in Nigeria, the government commissioned a collaborated survey report on MSME in 2010 between the national bureau of statistics (NBS) and the small and medium enterprises development agency of Nigeria (SMEDAN). This was one of the concerted responses to the challenges of building a credible and reliable SME database which is a basic requirement to strategically reposition and develop the sector (SMEDAN, 2010). Therefore, relevant information will be available and will be useful in grasping the level of contribution of SMEs to the development of the economy (IFC, 2001).

Meanwhile, other factors have been identified constraining the development of this all important sector which includes high production costs emanating from the provision of inadequate infrastructure by the government, inefficient technology use by SMEs relating to processing, preservation and storage of commodities, lack of access to international market, nonexistence of succession plan by the operators, poor access to vital information, inability to keep adequate financial records, and absence of Research and Development to mention a few (Ogbo, & Nwachukwu, 2012; Obokoh, 2008; Adaramola, 2012; Eniola, 2012). The absence of these facilities has instigated higher overheads cost for the SMEs which has impacted on their profitability and growth because they were responsible to obtain such facilities at their own expense (Mambula, 2002). However, these problems have been on the vanguard of every new government in power to tackle. However, little results have been achieved except the telecommunications sector which is contributing immensely to the development of the economy (Sanusi, 2010; Evbuomwan, et al, 2013).

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