

Government policy, financial inclusion and performance of SMEs in South Eastern Nigeria

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ABSTRACT

Objective: This study seeks to determine the contribution of government policy and Financial Inclusion (FI) to the financial and non-financial performance of SMEs in South Eastern Nigeria.

Research Design & Methods: The study adopts qualitative methodology. The interview guide was pre-tested for reliability and validity. The study data were generated from purposively selected one hundred and twenty respondents. The audio recorded interview was transcribed and subjected to thematic content analysis.

Findings: SMEs that received support from the government recorded marginal financial performance and improved non-financial performance. Also, SMEs that adopted FI strategies and devices experienced improvement in both their financial and non-financial performance. However, SMEs that combined government, friends and family supports, and FI strategies and devices recorded better improvements in their financial and non-financial performance.

Contribution & Value Added: The combination of government, friends/family supports and FI strategies and devices gives better improvement to the financial and non-financial performance of SMEs in South Eastern Nigeria. Thus, the government can reinvent its policies so as to strengthen its implementing agencies and the families of SME owners. SME owners can achieve better financial and non-financial performance by combining government entrepreneurship incentives, friends/family supports and FI strategies and devices.

Article type: research paper

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INTRODUCTION

Small and medium-sized enterprises (SMEs) have the potential to improve employment generation, promote local entrepreneurship and indigenous technology development, improve wealth creation, reduce the rate of poverty, mitigate rural-urban drift, improve income redistribution, facilitate industrial dispersal, promote exportation, and improve the economic status of a nation (Abehi, 2017; Valentine, 2014). Yet, in Nigeria, the development and performance of SMEs is constrained by lack of enabling government policy (Bubou *et al.*, 2014; Eniola & Entebang, 2015). Moreover, the first ranked problem among all the problems facing SMEs in Nigerian is lack of finance for starting and developing the business (Etumeahu *et al.*, 2009).

The post-independence era in Nigeria is dotted with policies that are geared towards the development of SMEs. However, till date, financial exclusion has remained the main challenge of SMEs in Nigeria. Evidently, 39.2 million adults representing 46.3 per cent of the adult population of 84.7 million Nigerians were financially excluded. The World Bank, Global Findex data show that only 30.0 per cent of Nigerian adults transact through/with formal financial institutions; one of the lowest in Sub-Saharan Africa (CBN, 2012; Kama & Adigun, 2013). Financial exclusion is conspicuously predominant in Nigeria (Kama & Adigun, 2013) because greater part of the money in the Nigerian economy is outside the banking system. Specifically, the Central Bank of Nigeria (CBN) put the currency outside banks at N1.471 trillion as at March 2015 (CBN, 2015).

The Nigeria banking industry has more than 5,797 bank branches, 112,400,254 Automated Teller Machines (ATMs), 6,716,596 Point of Sales (POS) terminals and the average of 3,882 clients per branch. These infrastructures are operating below its potential and have the capacity to serve more clients (Sanusi, 2012). The SMEs financing practices show that formal financing is very negligible. The statistics show that personal savings and family source represents 84.6 per cent and 29.8 per cent respectively, while loans from banks and cooperative/Esusu represents 9.2 per cent and 8.0 per cent respectively (SMEDAN/NBS, 2012). The Federal Government of Nigeria in 2011 made Financial Inclusion (FI) a priority by initiating the National Financial Inclusion Strategy (NFIS) which was aimed at reducing financial exclusion from 39.7 per cent in 2012 to 20.0 per cent of the population by 2020 (Sanusi, 2012).

Most of the studies that have related government policy to SME performance are conceptual (Abbasi *et al.*, 2017; Eniola & Entebang, 2015), while the empirical studies that have related FI to SME performance are still rare in Nigeria (Eniola & Entebang, 2015; Ibor *et al.*, 2017). The choice of South Eastern Nigeria for this study is premised on the fact that 32.0 per cent of adults in South Eastern Nigeria are excluded from financial services (Akingunola, 2011; Nwite, 2014). In addition, numerous policies and institutions of the Federal Government of Nigeria that are geared towards promoting the development of SMEs have been implemented in the zone. Owing to the commonplaceness of SMEs in the zone, this study seeks to investigate the influence of these policies on the performance of SMEs and the contribution of FI to the performance of SMEs.

LITERATURE REVIEW AND THEORY DEVELOPMENT

Government Policy

Government policies are key elements that influence the establishment and sustainable performance of SMEs, and the economy of nations. Government can do this through grants and expert advices, financing products, flexibility in the conduct of business in the public sector, tax relaxation, loan without collateral, guaranteeing loan, and equity investment (Jasra *et al.*, 2011).

After Nigeria's independence in 1960, the Federal government formulated policies and established relevant institutions to support the development of SMEs. These include the industrial Development Centres (1960 to 1970) and the Small Scale Industries Credit Guarantee Scheme (SSICS) in 1971. The Nigerian Industrial Development Bank (NIDB) (1964), Nigerian Bank for Commerce and Industry (NBCI) (1973), and the National Economic Recovery Fund (NERFUND) (1989). In 2000, these institutions were merged to form the Bank of Industry (BOI) (Ayozie *et al.*, 2013; Babajide *et al.*, 2015; Olekamma & Tang, 2016). The Nigerian Agricultural Cooperative Bank (NACB) (1973), People's Bank of Nigeria (PBN) (1989) and Family Economic Advancement Programme (FEAP) (1997) were merged to form the Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB) in 2000. In 1986, National Directorate of Employment (NDE) was established to stimulate skills and entrepreneurship development (Ayozie *et al.*, 2013; Babajide *et al.*, 2015; Olekamma & Tang, 2016).

Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) and National Credit Guarantee Scheme (NCGS) were established in 2003 to provide access to industrial infrastructures and credit. The Small and Medium Enterprises Equity Investment Scheme (SMEEIS) was formed in 1999, while the Rural Banking Scheme was introduced in the 1970s (Ayozie *et al.*, 2013; Kama & Adigun, 2013; Olekamma & Tang, 2016). In addition, in its efforts to encourage and support aspiring entrepreneurial youths in Nigeria to develop and execute business ideas, YouWIN was launched in 2013 (Anochie *et al.*, 2015). Similarly, owing to the high inflation rate and high cost of doing business in Nigeria (Rafiq, 2016), the Federal Government initiated the Ease of Doing Business Executive Order E01 to eliminate all impediments and bottlenecks, which make doing business in Nigeria cumbersome and problematic (Imandojemu, 2018; Ministry of Budget and National Planning, 2017; World Bank, 2015).

Financial Inclusion

FI is a process of promoting or ensuring access to appropriate financial products and services needed by all sections of the society and the vulnerable groups such as the lower income groups, the SMEs. FI is a means of giving credit facilities to stimulate self-employment opportunities (Chakravarty & Pal, 2013), and supporting business development especially in developing countries (Irakunda, 2017). The CBN established that FI is achieved when adult Nigerians have easy access to a broad range of formal financial services that meet their needs at affordable cost (CBN, 2012). The strategies employed by the CBN are: agent banking; mobile banking/mobile payments; linkage models; and client empowerment (CBN, 2012; Onalo *et al.*, 2017; Sanusi, 2012).

Small and Medium Enterprises

The National Council of Industries (NCI) definition of SMEs is adopted for this study. NCI (2001) define SMEs as the business enterprises whose total costs excluding land is not more than two hundred million naira only.

SME Performance

SME performance is measured using financial and non-financial indicators. The financial indicators include profit and growth (Panigyrikis *et al.*, 2007, as cited in Esuh, 2012). The measures of profitability are return on assets, return on investment and earnings per share (Monday *et al.*, 2014). The measures of growth are sales, employment and business revenue (Altinay & Altinay, 2006; Kelley & Nakasteen, 2005; Monday *et al.*, 2014). Non-financial indicators are customer satisfaction and customer's referral rates, delivery time, waiting time and employee's turnover (Monday *et al.*, 2014).

Empirical Review

Ibor *et al.* (2017) found that FI positively and significantly impacts the operation and growth of MSMEs. Salman, Ayo-Oyebiyi and Emenike (2015) reveal that FI has a significant positive effect on the growth and development of SMEs. Abdulrahman and Olofin (2017) establish that FI is positively and statistically related to the inclusive growth of SMEs. Abeh (2017) empirically conclude that government efforts significantly affect the growth and development of SMEs. Onugu (2005) found that the poor performance of SMEs in Nigeria is due to instability of governments and inconsistency in government policies. It is evident from the review that empirical studies in this area are few. Moreover, there is a rarity of similar studies in South Eastern Nigeria. Therefore, the current study seeks to determine the contribution of government policy, and FI strategies and devices to the performance of SMEs in South Eastern Nigeria.

MATERIAL AND METHODS

Participants

The choice of South Eastern Nigeria is premised on: the commonplaceness of SMEs in the five States (i.e., Abia, Anambra, Ebonyi, Enugu and Imo States) that make up the zone; the rarity of studies that have related government policy and FI to SME performance in the zone; the challenges facing SMEs in the zone; and the need to enhance the performance of the SMEs in the zone. The study adopted purposive sampling technique. The study is limited to SMEs in the trading, services, manufacturing and agricultural/agro-allied sectors. Two SMEs were studied in each of the sectors per State. Three respondents (the business owner and two top level managers) were studied in each SME. In all, forty SMEs and one hundred and twenty respondents participated in the interviews.

Instrument for Data Collection

The qualitative data for the study were generated using the interview guide in the Appendix. Verbal permission to audio record the interview was sought for and obtained before commencing each of the interviews. During the interviews, the respondents were permit-

ted to ask questions at any point. On the average, each of the interviews lasted for twenty minutes. At the end of each interview, the audio recorded interview was transcribed.

Data Analysis

The generated qualitative data were subjected to thematic content analysis. In doing this, the coded quotes were underscored based on observed patterns amongst them. These patterns were then used to develop the study themes. The quotes were thereafter sorted according to the developed study themes. In presenting the results, pseudo names (i.e., **R** = Respondent & **SME** = Small and Medium Enterprise) were used to avoid revealing the identity of the studied SMEs and/or giving the public any reason to guess the identity of the respondents.

RESULTS AND DISCUSSION

The result of the study is presented based on the developed themes under two sub-headings; contribution of government policy to SME performance, and contribution of FI to SME performance.

Contribution of government policy to SME performance

The developed themes from the transcribed interviews on the contribution of government policy to SME performance are: sources of information on existing government policy for SME development; institution implementing existing government policy; nature of government support and consistency of the institution in delivering the support; and effect of the support on SME performance.

Sources of information on existing government policy for SME development

The following summarized responses lend support for the choice of this theme:

*...my friends told me about this government support programme (**R2 from SME30**).*

*I came to know NACB and the government support it was implementing through my TV and radio sets (**R1 from SME21**).*

Institution implementing existing government policy

The reason this theme was selected is substantiated by the following responses.

*The support I received from NDE helped to improve the performance of my SME (**R3 from SME3**).*

*Thanks to NACB...through their support, my SME perform better now (**R2 from SME40**).*

Nature of government support and consistency of the institution in delivering the support

The following responses substantiate this theme:

*I acquired the skills for my SME from NDE...committed at the beginning. At some point into the programme, NDE became inconsistent (**R1 from SME5**).*

I obtained the first loan for my SME from NACB. Afterwards I could not secure another. This was surprising since the inspection report of NACB showed that I needed more supports to strengthen my SME (R3 from SME9).

Although NDE and NACB still exist, their commitment to the implementation of these policies has greatly reduced (R2 from SME18).

Effect of the support on SME performance

The explanations in support of this theme are given by the following responses:

Without government support, my SME recorded improved performance. Through the support of friends and family members, my customers are satisfied. This is because I deliver quality products and services on time and retain my knowledge workers. I have also opened new SMEs (R1 from SME26).

Government support has helped my SME to achieve marginal profit and growth. Despite this, my SME has records of better delivery time, shorter waiting time, reduced employees' turnover and improved customer satisfaction (R3 from SME34).

Contribution of FI to SME performance

The quotes from the transcribed interview which are related to the contribution of FI to SME performance are grouped into three themes. The themes are: knowledge of financial inclusion strategies and devices; influence of FI strategies and devices on the siting of SMEs and business transactions; and performance indicators affected by FI strategies and devices.

Knowledge of financial inclusion strategies and devices

The assertions in support of this theme are explained by the following responses:

I'm aware that I can use the POS machine and my mobile phone to make payment and receive money (R1 from SME7).

I know that the closeness of bank branches and bank agents to my SME facilitate payments and receipt of money (R2 from SME11).

Influence of FI strategies and devices on the siting of SMEs and business transactions

The choice of this theme is elaborately captured in the following responses:

I chose this location for my SME because it is surrounded by bank branches that are connected to my SME with good road network. The area is dotted with bank agents. To me, these factors have helped to make paying in and withdrawal of money from the bank easier (R1 from SME16).

In my SME, we start and conclude business transactions without exchanging cash. This became possible when we started using POS devices and mobile phone banking (R3 from SME23).

Performance indicators affected by FI strategies and devices

This theme is supported by the following summarized responses:

Due to the closeness of my SME to the bank, the good access road to the bank, and the prevalence of bank agents, the rate of armed robbery attacks on my SME has reduced and I now spend less on security (R2 from SME38).

Ever since I started employing POS devices and mobile phone in business transactions, the customers of my SME are now better satisfied (R3 from SME27).

My customers are no longer afraid to visit my SME for business transactions, while the rate at which my workers resign has equally reduced. This is as a result of the significant reduction in the rate of insecurity in this area (R2 from SME35).

The introduction of the use of mobile phone in my SME for calls, money transfer and payment marked the beginning of carrying on business transactions without physical contacts. This practice has also reduced the time between receipt of payment and delivery of goods and/or services (R1 from SME22).

I have expanded into similar and different businesses using the profits I made from my SME (R3 from SME15).

With government support, at first I noticed little improvement in profit and better improvement in customer satisfaction, delivery time, waiting time and resignation of workers from my SME. After combining supports from the government, friends and family members with the strategies and devices that make payment and receipt of money easy, I observed better improvement (R2 from SME1).

The results of this study are consistent with previous findings (Abdulrahman & Olofin, 2017; Abehi, 2017; Ibor *et al.*, 2017; Salman *et al.*, 2015). However, the current results are somewhat different from previous results. Previous findings have shown that FI strategies and devices, and government policy or support for SME development improves the performance and growth of SMEs. No past result seems to have depicted the contribution of such policy, strategies and devices to the financial and non-financial performance of SMEs.

Globally, SMEs are known to add to a nation's Gross Domestic Product (GDP) (Noor, 2016). In Nigeria, 46.54 per cent of the GDP are contributed by the Micro, Small and Medium Enterprises (MSMEs) (SMEDAN/NBS, 2012). This suggests that SMEs in Nigerian need the attention of the Federal Government. This attention should be geared towards assisting the SMEs with favourable policies that ensure they have access to finance and relevant trainings (Etumeahu *et al.*, 2009). Through these policies and institutions, the government can provide adequate enabling environment and monitor the establishment and performance of the SMEs (Aiyedun, 2004; SMEDAN/NBS, 2012). Government support is important to SMEs because lack of the resources such as finance and trainings that come with such policies can limit the capacity of SMEs to improve their performance (Harvie *et al.*, 2010; OECD, 2009). However, SMEs have not been sufficiently provided with the much-needed government support to enhance their growth (Noor, 2016). Valentine (2014) asserts that when government policies are not effectively or efficiently reliable as a result of frequent volatility in policy formation, the tendencies for the unpredictability of investment environment and failures of SMEs operations becomes more pronounced.

In the view of Sathe (2006), government regulations can hinder as well as facilitate the development of new and existing SMEs. Despite these policies and institutions, many practitioners and researchers are of the view that among other factors, the inconsistencies in the

implementation of the policies and lack of finance have made the policies and institutions not to sufficiently facilitate the establishment and performance of SMEs in Nigeria (Akinbogun, 2008; Aremu & Adeyemi, 2011; Omoruyi & Okonofua, 2005). However, many SMEs are still being established every year in different sectors and parts of the country. Moreover, based on the financial and non-financial dimensions of performance, some of these SMEs have recorded improved performances (Harvie *et al.*, 2010). The foregoing therefore lends support to the result of this study. The current result has revealed that the insufficient and inconsistent support received by the SMEs from the government has helped the SMEs to achieve some level of performance especially non-financial performance.

Financial support is important for SMEs' superior performance (Wiklund & Shepherd, 2005). Generally, SMEs are deprived access to funds from formal financial institutions because lending to SMEs is risky, SME loan management is expensive and costly to supervise, and unavailability of comprehensive credit ratings that signal credit worthiness of SMEs. The inability of SMEs to meet the requirements for loans from formal financial institutions has made the owners of SMEs to resort to informal financial institutions for support (Porter, 1985). These assertions are in tandem with the current result that SMEs that did not receive government support were able to achieve improved performance based on the supports received from friends and family members. Thus, personal savings of an SME owner, and support from friends and family members can enhance the performance of the SMEs.

All over the world, savings mobilisation policies are known to contribute to FI. Unfortunately, the Federal Government of Nigerian does not have any policy in place for savings mobilization, most of her policies and intervention institutions are geared towards credit enhancement that are yet to produce the desired results (CBN, 2012). Zarook, Rahman and Khanam (2013) remarked that the performance of a firm influences its access to financing, particularly with formal source. The difficulty in accessing finance might prevent the SMEs from growing to their optimal size and can lead to many enterprises operating outside the formal system. This can equally translate to low productivity, sub-standard products, unemployment and untimely winding up of the SMEs. Despite this, proponents of FI have argued that formal source of finance remains reliable source of SMEs growth, development and performance in various countries, Nigeria inclusive (Kihimbo *et al.*, 2012; OECD, 2006; Oladele *et al.*, 2014; SAEED, 2009).

Before now, researchers have reported that the state of FI was relatively poor owing to poor implementation or adoption of wrong strategies and devices (Ajakaiye & Olowookere, 2013). However, the result of the current study reveals that FI strategies and devices contribute to the financial and non-financial performance of SMEs. Thus, the FI strategies and devices are not wrong. Corroborating this view, Triki and Faye (2013) asserts that FI helps individuals to grow their capacity, and firms to reinforce their human and physical capacity. Moreover, a high level of capital accumulation, right combination of other factors of production, good business environment, and reduced financial exclusion will bring about improved level of SMEs' performance. FI cannot be achieved if there is no good road network connecting the SMEs and the banks and if there is lack of access to secure, and reliable payment and settlement systems. Banks are important in the achievement of FI. However, their services must be easily and cheaply available when needed (Imandojemu, 2018; Jasra *et al.*, 2011; Nwafor & Yomi, 2018).

CONCLUSIONS

This study has shown that SMEs that did not receive any support from the government showed improvements in their financial and non-financial performance. The SMEs that received government support reported marginal profit. However, they recorded improvement in their non-financial performance. The FI strategies and devices used by these SMEs are POS device, mobile phones for financial transactions, agent banking and closeness of bank branch to the SME. The adoption of the FI strategies and devices helped to better improve both their financial and non-financial performance. It was further found that government support alone improves financial performance a little, while a combination of supports from the government, friends and family members, and FI strategies and devices improves both the financial and non-financial performance better. This study therefore contributes to the existing literature on SME performance by establishing that the combination of government policy, friends/family support and FI strategies and devices gives better improvement to the financial and non-financial performance of SMEs in South Eastern Nigeria.

The managerial implications of this study is that owner/managers of SMEs need to access loans and acquire skills through the government policy implementing institutions, and apply the FI strategies and devices in their SMEs. Specifically, this will ensure that their product/service quality is improved, delivery time is reduced, security challenges are reduced, knowledge workers are retained, customers are satisfied, profit is improved, and the business is diversified.

The government should reinvent its policies so as to strengthen its implementing agencies and ensure more consistent in the implementation of policies geared towards SME development. The relevant institutions saddled with the responsibility of implementing such policies should be more committed in delivering the supports. This is to ensure that the policies contribute to both the improvement of the financial and non-financial performance of the SMEs. To increase the level of empowerment given to SME owners, government can formulate policies that are targeted at improving the living standard of families. The supervisory functions of the Central Bank of Nigeria (CBN) over formal financial institutions should be strengthened to ensure the sustenance of the implementation of the FI strategies and devices, and the actualisation of FSS 2020. Aside support from the government and the benefits of applying and employing the FI strategies and devices, owner/managers of SMEs should also seek support from friends and family members for the improvement of the financial and non-financial performance of their SMEs.

The first limitation of this study is that the geographical scope is restricted to South Eastern Nigeria. Thus, the application of the results by implication will be limited to the zone. Secondly, the study covered only SMEs from the trading, services, manufacturing and agricultural/agro-allied sectors. This suggests that generalisation of the results for all sectors will be difficult since business sectors and the SMEs operating in them differ on the basis of resource needs (e.g., finance, training, skills). The replication of this study is needed in other zones of Nigeria or other parts of the world in order to confirm our results and by extension ensure the generalisation of our findings. Future research may investigate more business sectors to show the interplay between the dimensions of performance and different types of supports.

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Appendix: Interview Guide

1. Are you aware of any way that government supports the development of SME?
 - i. Who or what was the source of your awareness?
 - ii. Has your SME been supported by government in any way?
 - iii. What is the name of the government institution through which the support was provided?
 - iv. Can you describe the support your SME has received from the government?
 - v. Is the relevant institution saddled with the responsibility of facilitating the support consistent in delivering it to your SME?
 - vi. Has the support helped to improve the profit, growth and/or customer satisfaction, customers' referral rates, delivery time, waiting time, employees' turnover of your SME?
 - vii. If yes, tell me about the contributions to the performance of your SME.
 - viii. What about the continued facilitation of the support and the existence of the relevant institution?
2. How conversant are you with the strategies and devices that make payment and receipt of money easy for individuals and SMEs?
 - i. Which of the strategies and devices have you employed in business transactions involving your SME?
 - ii. Has the employment of the strategies and devices contributed to the profit, growth and/or customer satisfaction, customers' referral rates, delivery time, waiting time, employees' turnover of your SME?
 - iii. If yes, in what areas has the performance of your SME been improved?
3. Do you agree that a combination of government support and ease of payment and receipt of money among individuals and SMEs contribute to the profit, growth and/or customer satisfaction, customers' referral rates, delivery time, waiting time, employees' turnover of your SME?

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