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Assessment of the Impact of Government Policies on the Growth of Small Businesses in Nigeria

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Abstract

This study, "effect of government policy on small business development in Nigeria" examined the various government policies namely taxation, access to finance, regulatory policies, infrastructure and business support policies were considered. The survey research approach was used, which is a quantitative method. The study utilized the registered small business owners/managers who were selected using stratified random sampling technique from 320 small business owners/managers in the selected states of Nigeria. The main data collection tool used was structured questionnaire while descriptive statistics was used to analyze the data and Pearson Product Moment Correlation used at the 5% significance level was adopted. The results indicated that government policies are significant factors on the growth of small business ($r = 0.641$, $p < 0.001$). Financing schemes and supportive measures by the government proved effective in improving business expansion, job creation and profitability. Multiple taxation, inconsistent policy implementation and poor infrastructure, on the other hand, hampered the performance of businesses. 68.4 per cent of the respondents cited inconsistent policy implementation as the biggest challenge and 61.9 per cent said that improved credit access provided a boost to operational performance. It is concluded in the study that sustainable small business growth and development in Nigeria, as well as the competitiveness and overall economic development is heavily dependent on the implementation of transparent, stable and effective government policies.

Keywords: Government policies, Small business growth, Small and Medium Enterprises (SMEs), Business environment and Nigeria.

1. Introduction

Despite their ubiquity, the significance of small businesses to employment creation, poverty alleviation, innovation, income generation and economic diversification is significant in most developing economies, with the World Bank (2022) and SMEDAN & NBS (2021) citing the roles of small businesses. Micro, Small and Medium Enterprises (MSMEs) in Nigeria are the vast majority of businesses and the source of livelihoods for millions of Nigerian households (SMEDAN & NBS, 2021). They are involved in various activities and are essential to inclusive economic development ranging from agriculture, manufacturing, trade, transport, construction, hospitality to information technology. The sector is still experiencing low growth rate and high business mortality despite its strategic relevance because of the various challenges in the operating environment such as policy inconsistencies, poor infrastructure, lack of access to finance, multiple taxation, regulatory process delays, exchange rate fluctuations, and insecurity (World Bank, 2022; CBN, 2023). The government policies are then therefore a key factor in determining the fate of small businesses – in terms of survival, growth or exit. Macroeconomic stability has been advanced in certain aspects in recent years, but many enterprises are facing challenges in improving their operational efficiency due to rising operating costs and reduced purchasing power of consumers, reflecting the intricate connection between public policies and enterprise development (IMF, 2023).

There have been a number of programmes in all the Nigerian governments to encourage small business development. This includes intervention funds through the Central Bank of Nigeria, credit guarantee schemes, entrepreneurship development schemes, tax reforms, business registration reforms and institutional support through the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) (CBN, 2023; SMEDAN, 2021). These are designed to help alleviate financial barriers, boost productivity, formalise enterprises, boost competitiveness and create employment. However, empirical findings have shown that the impact of such policies have been varied due to implementation problems that often limit their effectiveness (Aremu & Adeyemi, 2020). Some have been able to find better finance and business support programmes, others have been burdened with high compliance costs, uncertain regulatory frameworks, unreliable electricity supply, poor transport infrastructure and multiple taxes levied by the government that drive up production costs and reduce profits (World Bank, 2022).

The effectiveness of a policy therefore is not just the result of policy formulation but on a consistent, coordinated and transparent policy and institutional capacity. With the current Economic Reform in Nigeria, and its attempts to increase the participation of the Private Sector, especially the examination of Government policy has become even more critical. The operating environment for businesses is changing due to recent macroeconomic adjustments, such as the exchange rate reform, fiscal restructuring, and the aim of enhancing revenue mobilisation (IMF, 2023). These reforms not only aim to bolster long-term economic sustainability but have also imposed several adjustment costs on MSMEs in the short term, including higher import prices, inflation, and production costs. To foster inclusive private sector growth and employment, it is important to continue macroeconomic reforms, further investment climate, infrastructure and institutional development, according to the World Bank (2022). The above realities indicate that there is an interplay between opportunities and constraints for enterprise development and that the assessment of the reality on ground is a continuous process for evidence-based policy making. While several research works have examined the performance of SMEs in Nigeria, there is still a lot of disparity about the overall effectiveness of the government policies in promoting sustainable business growth. A few researches have ended that government interventions have enhanced the access to finance, boosted entrepreneurial activities, and facilitated employment creation (Aremu & Adeyemi, 2020). Others note that programme effectiveness is seriously affected by policy inconsistencies, bureaucratic procedures and lack of monitoring, institutional coordination and infrastructure (World Bank, 2022). The findings in the literature have been inconsistent due to variations in research design, geographical coverage, variables studied and the periods investigated. There is thus a need to further conduct empirical studies with a view to understanding the role of the various policy measures of the government collectively on the growth of small businesses in the present economic climate in Nigeria.

Problem Statement

Despite all these interventions and policies initiated by the Government to support the growth of small businesses, many small businesses in Nigeria are still facing difficulties with slow growth, limited access to affordable finance, falling profitability and high failure rates (SMEDAN & NBS, 2021). Multiple taxation, regulatory complexity, poor infrastructure, inconsistent policy implementation, insecurity and macroeconomic instability remain a threat to the competitiveness of the MSMEs (World Bank, 2022). The fact that despite all these state interventions, entrepreneurs still face problems while operating shows how effective current government policies are in practice, which raises pertinent questions about their efficacy. The question now is whether there is any significant role of government policies in promoting the growth of small enterprises and what are the dimensions of policy most likely to affect the performance of enterprises.

Research Objectives

The broad objective of this study is to examine the impact of government policies on the growth of small businesses in Nigeria.
The specific objectives are to:

1. examine the influence of government financing policies on the growth of small businesses in Nigeria;
2. evaluate the effect of taxation and regulatory policies on business performance;
3. determine the relationship between government infrastructural support and business growth;
4. assess the overall impact of government policies on the sustainability and expansion of small businesses.

Research Questions

1. How do government financing policies influence the growth of small businesses in Nigeria?
2. What effect do taxation and regulatory policies have on business performance?
3. To what extent does government infrastructural support influence business growth?
4. What is the overall relationship between government policies and the growth of small businesses in Nigeria?

Research Hypothesis

H_0: Government policies have no statistically significant relationship with the growth of small businesses in Nigeria.
H_1: Government policies have a statistically significant relationship with the growth of small businesses in Nigeria.

Significance of the Study

The study, "Effectiveness of Government Policies in the Growth of Small Businesses in Nigeria: An Empirical Analysis", makes a contribution to the literature in the fields of public administration, entrepreneurship and development policies by revealing empirical evidence of the effectiveness of the government policies in promoting the growth of small business in Nigeria. The findings will help the policymakers to better formulate and execute policy, and guide SMEDAN, Central Bank of Nigeria (CBN), ministries with responsibilities for trade and investment and other development agencies. The study will also help entrepreneurs to understand the policy environment that impacts the performance of enterprises and will provide a good reference for future study researchers studying entrepreneurship development in emerging economies.

Literature Review

Government Policy

Government policy is a body of laws, regulations, fiscal measures, monetary interventions, administrative guidelines and institutional set up that are developed by public authorities to affect the economic and social activities. The context of the business environment includes government policies that affect the legal and economic context in which firms operate, such as tax policy, access to finance, trade, labour standards, infrastructure policy, investment policy and institutional policy. Increased uncertainty and uncertainty around policy implementation lower the confidence of investors, stifle investment, and hinder enterprise development; while clear and consistent policies boost investors' confidence and attract investment (World Bank, 2022, IMF, 2023). Recent Nigerian studies underscore the need to go beyond regulation to capacity building, financial inclusion and technological support, and institutional reforms to ensure enterprises' competitiveness in a fast-changing economy (Usman et al., 2026; Segun et al., 2024). There are multiple complementary instruments which government policy uses. Fiscal policy affects the businesses by taxation, public expenditure and public investment incentives. The Central Bank of Nigeria implements monetary policy which impacts on the rates people have to pay on loans, inflation, liquidity and availability of credit. The regulation of business registration and licensing, environmental compliance and labour standards are important areas of regulatory policy, as is industrial policy which involves offering incentives and spending on infrastructure to promote sectoral development. Nowadays, literature suggests that effectiveness of these policy instruments is more about consistency, transparency, institutional coordination and implementation capacity than policy formulation (Ayodele et al., 2025; World Bank, 2022).

Small Businesses

Small businesses are those that make lower investments, hire fewer employees and have lower annual turnover than the large businesses. The official classification in Nigeria is based on the National Policy on Micro, Small and Medium Enterprises which classifies the enterprises based on the number of employees and asset value (excluding land and buildings). SMEDAN estimates that small enterprises have between 10 and 49 pieces of employment and assets within the national definitions. These are found in manufacturing, agriculture, retail trade, hospitality, transportation, information technology and professional services and construction. Small businesses are important because they: create jobs, encourage entrepreneurial development, create innovations and make substantial contribution to the Gross Domestic Product of Nigeria. They are flexible and can adapt quickly to the changing market conditions and customer preferences. However, their long-term growth potential is still hindered by limited managerial capacity, lack of financial resources, lack of infrastructure, technological challenges and unstable government policies. The latest reviews show that these structural limitations are still a reality after the multiple government intervention programmes aimed at changing the situation from 2020 to 2025 (Ayodele et al., 2025; Ibrahim, 2026).

Small Business Growth

The growth of a small business is a business that has improved its operational, financial and competitive performance over time. Growth is not limited to sales revenues but also encompasses the number of employees, profitability, market share, number of customers, productive capacity, innovation capacity and technological penetration, or survival of the business. As sustainable growth is considered a multidimensional objective, researchers have begun to discuss and challenge the use of financial only indicators, as enterprise success relies on multiple factors, which are interrelated (Segun et al., 2024). In Nigeria, growth of business is tightly linked to the external business environment. The overall stable macroeconomic environment, finance, transportation efficiency, power supply reliability, digital infrastructure and legal protection and predictable regulation all affect enterprise development. Without these conditions, companies will be at a disadvantage in terms of costs of operation, productivity and competitiveness. Modern systematic reviews, however, are able to conclude that enterprise growth is as a result of internal management skills of the enterprise as well as the overall institutional environment established by the government through its policies (Usman et al., 2026; Ayodele et al., 2025).

Government Financing Policies

Financial access is the most important policy dimension impacting on the performance of small businesses. The government has established several financial intervention schemes such as intervention funds, credit guarantee schemes, concession financing programmes, development finance schemes and financial inclusion measures for better access to finance for MSMEs. The Central Bank of Nigeria (CBN) and other government agencies in Nigeria aim to remove market imperfections caused by rigid collateral demands, high lending rates and limited availability of credit through their interventions. Financing support has been consistently found in the literature to be a strong factor influencing enterprise productivity, innovation and expansion. Better access to cheap credit is associated with higher firms' investment in productive assets and employee training and technology upgrading. Researchers note, however, that the bureaucracy involved in applications, lack of awareness, political interference, and strict eligibility criteria often hinder the effectiveness of the programmes, thus excluding many deserving businesses (Usman et al., 2026).

Taxation and Regulatory Policies

Taxation is a significant part of government policy since it affects the cost of business, investment decision and profitability of business. A well-designed tax administration system that facilitates public revenue collection without undue compliance costs on businesses. On the other hand, complex taxation (and compound tax rates), inconsistent tax collection and dual taxation discourage formalization of businesses and lessen the investment incentive. Regulatory policies also impact enterprise performance in terms of the business registration process, licensing requirements, environmental standards and labour regulations or commercial dispute resolution processes. Research on the regulatory environment in Nigeria has found that while the government has launched business reforms, the excessive bureaucratization of enterprises, inconsistencies in the implementation of regulations and the lack of institutional coordination remain obstacles to competitiveness in the country (Segun et al., 2024). Regulatory reforms thus need to be simple, transparent, and to lower compliance costs and digitalise government services.

Government Infrastructure Policies

Another policy lever in terms of supporting business growth is infrastructure. The government's investments on electricity, transport infrastructure, telecoms and water supply, and on digital infrastructure, have a direct impact on production efficiency, logistics costs and market access. Stable infrastructure provides companies with the ability to boost productivity and cut costs. Nigeria's infrastructure problems remain to be a significant burden on small businesses. Unpredictable power supply makes reliance on non-electrical energy sources costly and increases costs for rural businesses and households in accessing markets, as it limits their access to digital technologies. World Bank believes that continued investment in infrastructure continues to be a key component in facilitating private sector competitiveness and productive investments. Thus, the infrastructure policy is one of the most significant factors affecting long term MSME development.

Business Environment

The business environment is defined as the political, legal, economic, technological and institutional factors that influence businesses. The quality of this environment is largely shaped by government policies, which decide on macroeconomic stability, protection of property rights, efficiency of regulation, incentives for investment and effectiveness of institutions. Entrepreneurship is fostered by a positive business environment, which includes less uncertainty, increased investment and ease of innovation. Meanwhile, weak policy frameworks, inflation, currency fluctuations, insecurity and inefficiency in institutions have an adverse effect on enterprise growth. Recent systematic reviews find that coordinated reforms are needed in the Nigerian business environment that cover the financial, regulatory, infrastructure, governance quality and institutional accountability sectors, and not individual policy actions (Ayodele et al., 2025; Ibrahim, 2026).

Theoretical Framework

Theories underpin this study, and are those that explain the effect of government policies on the performance and growth of small businesses. The influence of institutions, organizational capabilities, and public policy on enterprise development, as well as the interplay within the business environment are not captured in a single theory and thus the relationship is complex. This study therefore, reviews the Institutional Theory, Resource Based View (RBV) and the Systems Theory and Public Choice Theory before adopting the most suitable one.

Institutional Theory

Meyer and Rowan (1977) developed the Institutional Theory and DiMaggio and Powell (1983) advanced it. The theory suggests that the organization is embedded in institutional contexts, which are defined by formal rules and regulations, government policies, cultural norms and expectations of society. Organizations strive to be legitimate by meeting these institutional conditions because it enhances their chances of survival, access to resources and sustainability in the long term (Scott, 2022). Institutional Theory is the theory which describes the influence of government policies on enterprise performance in the context of small businesses by establishing the regulatory and economic environment in which enterprises operate. Taxation, licensing, business registration, access to finance and infrastructure provision and legal protection policies affect the incentives and constraints faced by entrepreneurs. Efficient, transparent and predictable institutions make it easier for businesses to transact, for investors to invest and for expansion. On the other hand, poor institutions, lack of consistency in policies, high level of bureaucracy and corruption raise the cost of operations and lower investment (North, 2020; World Bank, 2022). The Nigerian studies that have been carried out were based on the application of the Institutional Theory and the explanation given to the challenges facing the MSMEs. The empirical evidence shows that despite the many government intervention programmes, multiple taxation, inconsistent policy implementation and regulatory bottlenecks and weak institutional coordination, enterprise competitiveness is affected (SMEDAN & NBS, 2021; IMF, 2023). The theory, therefore, is able to give a suitable explanation of the direct relationship between institutional quality of government and business growth. The relevance of the institutional theory is particularly special in this study because the five variables investigated such as government financing policy, taxation, regulation and infrastructure are institutional mechanisms set up by the public policy. They are effective to a large extent based on quality of implementation and institutional capacity.

Resource-Based View (RBV)

Barney (1991) and Wernerfelt (1984) were the first to propose the Resource-Based View. The theory states that key factors of organisational success are the possession of valuable, rare, inimitable and non-substitutable resources and their successful use. This is in the form of financial capital, qualified employees, management skills, technology, knowledge and innovation within the organisation. The key idea behind RBV is that firms with greater internal resources are able to perform better than their competitors and have a sustainable competitive advantage. Rewritten policies can impact small businesses as they relate to the strategic resources that will be available to firms to acquire and develop. There is an improvement in access to valuable resources such as government intervention funds, entrepreneurship development programmes, technological support and infrastructure investment in order to enhance enterprise competitiveness. Studies in recent times have suggested that Nigerian MSMEs are faced with some challenges which include resource constraints; lack of finances, technological capacity, managerial skills and innovation capacity. Thus, government support programmes are complementary to internal resources, thereby alleviating financial constraint and enhancing the productive capacity (Segun et al., 2024). However, RBV has been faulted for being more concerned about the resources it has at its disposal and relatively underemphasizing the institutional environment. Thus, the theory is not fully adequate to explain how the government policies impact enterprise growth.

Systems Theory

Bertalanffy (1968) introduced Systems Theory which is widely used in the studies of organisations and public administration. Organisations are regarded as open systems which are continually engaged in transactions with the external environments. Therefore, effective interaction between internal organisational activities with respect to the external environmental factors is essential to organisational performance. In the small business world, Applied Systems Theory refers to the fact that the business can't exist in isolation from its political, economic, technological and social surroundings. The government's policies can affect the business in the following ways: through fiscal policies, monetary policies, provision of infrastructure, legal policies and education, and technological development. Any change in one part of the business system will impact the whole business environment. The theory has proven useful when trying to understand why policies to improve one aspect of an enterprise do not necessarily lead to expansion. For example, greater availability of finance can have modest results in settings where the quality of electricity service is poor, or where regulatory hurdles are not overcome. Therefore, coordinated policy implementation on multiple fronts is required for sustainable enterprise growth. Although its scope is broad, Systems Theory offers little explanation of how the specific institutional mechanisms operate in shaping enterprise performance as a result of government policy.

Public Choice Theory

Public Choice Theory is an offshoot of the writing of Buchanan and Tullock (1962). The theory is an application of economic logic to the political and public sector decision-making process, maintaining that public sector policy makers, bureaucrats and politicians are interested in both "public" and "personal" interests. In public administration, the theory provides an explanation for the failure of some government intervention programmes to reach their desired goals despite the huge amount of money spent in the implementation of the programme. Policy ineffectiveness can be caused by bureaucratic inefficiency, political interference, rent-seeking behaviour and lack of effective accountability. This can lead to enterprise support programmes being poorly implemented, not everyone accessing them, and not everyone monitored. In Nigeria, Public Choice Theory is used to explain the poor developmental results of public policies that are aimed at supporting MSMEs, but are implemented with significant public funds. Policies are often not implemented in a timely way and administrative bottlenecks and governance issues often impede the effectiveness of intervention programmes (IMF, 2023; World Bank, 2022). While the theory offers some useful insights into the issues surrounding the implementation of policy, it does not much focus on the larger institutional landscape that can impact enterprise performance.

Adopted Theory

This study is guided by the theoretical framework in the form of Institutional Theory. The choice is appropriate and the study focuses on the effect of policy of government financing, taxations, regulation and infrastructural provision on the growth of small businesses in Nigeria. These variables are set-up and applied in government institutions. Institutional Theory describes the improvements in productivity, profitability, employment and long-term sustainability that businesses can achieve when public institutions make clear policies, apply regulations equally, invest in quality infrastructure, and facilitate easy access to finance. At the other end of the spectrum, institutional limitations like policy unreliability, complex regulations, double taxation and lack of adequate infrastructure limit enterprise growth. This theory therefore gives a sound conceptual basis for the study, it also underpins the growth of small business in Nigeria under the influence of government policy and underpins the study's objectives, research questions and hypotheses.

Empirical Review

The empirical studies related to government policies and growth of small businesses have grown significantly in the last decade and there has been a growing realization that Micro, Small and Medium Enterprises (MSMEs) serve as drivers in the process of economic development, job creation and poverty reduction. There have been previous studies that have focused on the impact of financing policies, taxation, and regulatory reforms, as well as infrastructure and institutional quality and business support programmes on enterprise performance. Many studies have found positive results from the government interventions; but others have found implementation gaps which limit the effectiveness of policy. Empirical evidence in Nigeria and selected literature from the international literature is reviewed.

Aremu and Adeyemi (2020) conducted a study on the role of government support programmes for the performance of SMEs in Nigeria, which involved surveying SMEs in selected states of Nigeria. Descriptive statistics and multiple regression analysis were used for the study and analysis of the relationship between the government interventions and business performance. The results showed government credit schemes and entrepreneurship support programmes had a positive impact on employment creation and the growth of businesses. The authors found that improved access to the finance of enterprises leads to higher productivity. The study noted however that many of the eligible entrepreneurs were not able to avail themselves of intervention programmes due to the bureaucratic procedures and poor awareness of these programmes.

The National MSME survey conducted by SMEDAN and the National Bureau of Statistics (NBS) in 2021 is still one of the most extensive sources of evidence on the Nigerian enterprises. The survey indicated that more than 96 per cent of businesses are MSMEs, and that they create jobs for millions of Nigerians. Even with this contribution, it was found that the main constraint to enterprise growth was inadequate supply of electricity, limited access to finance, multiple taxation, poor transportation infrastructure and regulatory bottleneck. The survey suggested more policy coordination and streamlined regulatory processes and increased availability of low-cost financing.

The Nigeria Development Update by the World Bank (2022) was used to evaluate the business environment in Nigeria. The report had found that macro-economic instability, infrastructure shortcomings, policy uncertainty and institutional shortcomings remain to lower competitiveness of the enterprises and investment activities in the private sector. Despite the improvements brought about by reforms in business registration and investment promotion, the high level of inflation, exchange rate volatility and lack of infrastructure persist and continue to drive up MSME production costs. The report made suggestions that institutional quality needs to be strengthened, the electricity supply needs to be improved and transport infrastructure needs to be enhanced with consistent policy support to boost the private sector growth.

In the context of developing economies, Organisation for Economic Co-operation and Development (OECD 2023) explored how the government's support policies affect SME resilience and productivity. The results showed that companies under coordinated government intervention in the areas of finance, innovation incentives and digital transformation programmes had greater productivity and better post-crisis recovery than those companies not supported by the government. The study emphasized transparency, accessibility and continuity rather than the sheer amount of government spending in effectiveness of the policy.

The International Monetary Fund (IMF), 2023 through its Article IV Consultation Report, assessed Nigeria's macroeconomic environment. Another limitation of business performance is exchange rate distortions, inflationary pressures, fiscal imbalances, and the lack of infrastructure, the report noted, especially for small businesses that can't afford financial resources. The IMF stressed the need for structural changes, fiscal discipline, better governance and a better investment climate for productive infrastructure to boost competitiveness of the private sector.

The immediate effect of government policies on SME growth in Nigeria was investigated by Segun, Ayodele, Simon-Ilogo and Kemi (2024) who used data of registered SMEs in selected geopolitical zones in Nigeria. Correlation analysis and regression analysis showed that there was correlation and the correlation was positive between the government financing initiatives and business growth where the relationship of the government financing initiatives with the business growth was significant and positive. Businesses receiving intervention funds were more profitable and experienced more employment increases than those that were not receiving such funds. However, policy inconsistency and delays in policy implementation were cited as significant challenges to the effectiveness of government interventions. The researchers found that there is a need for long-term institutional changes to try to maximize the developmental effect of government policies.

Oparah, Nwagbala and Iloanya (2023) examined how government policies affect the performance of SMEs through a survey of respondents who ran SMEs in South-East Nigeria. Pearson Product Moment Correlation and regression analysis was used to assess the relationships between government policy variables and enterprise growth. Results showed statistically significant positive associations between supportive Government policies and business growth. The programme, however, was not consistently implemented and was hampered by administrative delays and the imposition of multiple taxes which greatly affected the effectiveness of the programme. The authors suggested to improve institutional coordination and to regularly review the policy.

Usman, Ibrahim and Bello (2025) assessed the effectiveness of government intervention programmes targeted at MSMEs in northern Nigeria. The findings of the study using structured questionnaires and inferential statistical techniques revealed that companies that had better access to intervention financing had higher levels of investments, higher employment and increased business sustainability. Despite this, the researchers noted that there was still an unevenness in the availability of loans because of the need to provide collateral, delays in administration, and less information about the programme being disseminated.

Ayodele, Adekunle and Hassan (2025) evaluated taxation policies and enterprise performance of the manufacturing Small and Medium Enterprises (SMEs) in the South-west region of Nigeria. The study found that, while simplified tax administration increased its levels of compliance and facilitated formalisation, multiple taxation had the opposite effect: it led to a substantial decrease in profit and in investment. The authors recommended that there is a significant benefit to harmonising tax administration among federal, state and local governments that would have a significant impact on enterprise competitiveness.

Ibrahim (2026) investigated the linkage between the regulatory quality and SME competitiveness in Nigeria. The study confirmed the significance of transparent regulatory procedures, digital business registrations and efficient licensing systems with structural equation modelling. The research also highlighted the ability of firms in stable regulatory environments to innovate and their survival rate compared to firms in unstable regulatory environments.

In addition to Nigeria, Asian Development Bank (2023) found that, coordinated government policies incorporating digital infrastructure, financial inclusion and entrepreneurship support strongly the productivity of SMEs in a number of Asian economies. Likewise, the United Nations Conference on Trade and Development (UNCTAD, 2024) found that countries that implemented institutional reforms and infrastructure development generally were able to stimulate SME growth more effectively than countries that focused only on financial interventions.

Gap in Literature

Government policies are found to have a significant impact on the growth and sustainability of small businesses from the literature reviewed. The impacts of government financing programmes, taxes, regulatory reforms, infrastructure and institutional quality on enterprise performance have been well documented in the existing empirical research. Although these studies give us insights, there are some conceptual, methodological, contextual and empirical gaps that have yet to be addressed. One of the important conceptual weaknesses found in the literature is the lack of integration of government policy variables. The majority of existing research has been on a single policy dimension, access to finance, taxation, entrepreneurship programmes or regulatory reforms, but not all of these together, and not their impact on enterprise growth. Government policies are an interconnected set, with policy frameworks that deal with financing, taxation, infrastructure and regulation that all operate at the same time and as part of a single policy package. Analysis of these variables only gives a partial understanding of the impact of public policies on MSME development. The present study is aimed at filling this gap by combining the major dimensions of government policies in one analytical framework to assess the combined effect of the policies on the growth of small businesses in Nigeria. The reviewed studies have significant methodological variations. Most of the Nigerian studies used only descriptive statistics or simple regression analysis or qualitative approaches, with limited depth of statistical inference that could be drawn with respect to relationships among variables (Aremu & Adeyemi, 2020; Oparah et al., 2023).

Some investigations also used quite limited sample sizes, limited to particular states or sectors, limiting the generalisability of findings. Very few studies used detailed correlation analysis to assess the direction and strength of relationships between policy variables used by government and business growth indicators. To overcome the methodological limitation, this study uses Pearson Product Moment correlation and descriptive statistical techniques to obtain more empirical evidence about the relationship between the government policy and the growth of small businesses. Most empirical studies have focused on specific geopolitical areas or a specific state like Lagos, Ogun, Anambra, Kano or Rivers State. As a result, they tend to be based on regional economic conditions, not on the national economy. The result of disparities between states in Nigeria in the quality of infrastructure, institutional capacity, the business climate and government implementation reduces the applicability of the results of the study to the national level. This study adds to the literature by taking a wider perspective of Nigeria which will yield results and findings that will aid in the formulation and implementation of policy at the national level on small business development.

On the economy, there has been considerable change in Nigeria over the last few years, with exchange rate reforms, fiscal restructuring, inflation pressures, monetary policy changes, and renewed efforts to increase the participation of the private sector (IMF, 2023; World Bank, 2022). The majority of the research thus far conducted took place prior to these key policy changes, and consequently may not adequately reflect the current operating environment that confronts small businesses. The macroeconomic changes that occurred recently have had a profound impact on the cost of production, financing conditions, consumer purchasing power and investment decisions. Thus, it is necessary to have fresh empirical work that investigates the effect of modern government policies on business development in the present economic climate. This study addresses this contextual gap by studying the policies of the government in the existing economic environment of Nigeria. While previous research mainly has found positive connections between government actions and SME performance, the empirical evidence is not consistent. On the one hand, some researchers suggest that government financing programmes can indeed have a positive impact on profitability, job creation, and enterprise growth (Segun et al., 2024), while on the other, others state that policy inconsistencies, bureaucratic inefficiencies, corruption and infrastructure gaps can significantly undermine the effectiveness of government financing programmes (World Bank, 2022; IMF, 2023). By the same token, research varies on the respective roles of taxation, infrastructure, regulation and financing in driving enterprise growth. The lack of consistency indicated here suggests that there is still a need for further empirical research to construct a set of relationships between the government policy variables and business growth using modern data and more sophisticated analysis.

Methodology

The study adopted the quantitative survey research method to study the impact of government policies on the growth of small businesses in Nigeria. The structure of the survey was deemed to be suitable for the purposes of collecting primary data from a relatively large number of respondents and identifying the relationships between the variables of government policy and business growth indicators. The design also allows for the use of statistical analysis to objectively analyze responses and draw valid conclusions. The study used a cross-sectional type of research which obtains data from the respondents at one specific time. This method is appropriate due to the fact that the research aims to analyse the relationship of government financing policies, taxation policies, regulatory policies, infrastructural support and small business growth rather than to track the changes over a long period. The use of cross-sectional surveys is widespread in business research and public administration research due to their being economical, minimising respondent attrition and yielding reliable quantitative data concerning which can be made reliable correlations. Independent variable is government policy which is measured by financing policies, taxation policies, regulatory policies infrastructural supports. Growth of small business is the dependent variable which is measured in terms of business expansion, profitability, employment generation and business sustainability.

The study was carried out in Nigeria on registered small businesses in selected economic activities. Nigeria is an appropriate context as small businesses are a major contributor to employment, entrepreneurship and economic development. In addition, a number of government policies and intervention programmes have been undertaken to enhance the performance of Micro, Small and Medium Enterprises (MSMEs) which makes the country suitable for this investigation into the relationship between government policies and enterprise growth.

The study population were owners/managers of registered small businesses in Nigeria. Registered enterprises were chosen as they would be more likely to have engaged with government institutions in the form of taxation and licensing, financing schemes, compliance efforts or other public policy measures. The accessible population included 1,620 small business owners who were registered from the various business associations and government enterprise development agencies in the selected study area.

The sample for this study was 321 respondents. Stratified random sampling technique was used. Selected businesses were initially classified into their key economic sectors (manufacturing, agriculture, commerce, hospitality and services). After this, simple random sampling was used within each stratum, to give a good representation of all the business categories, and to reduce sampling bias.

The study was of a primary and secondary data. Structured questionnaires were used to collect primary data from owners/managers of selected small businesses. Secondary data were sourced from published books, peer reviewed journal articles, government publications, report of the Central Bank of Nigeria (CBN), Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), National Bureau of Statistics (NBS), World Bank, International Monetary Fund (IMF) and other relevant institutional publications.

The main tool used to collect data was a researchers-made structured questionnaire, which was developed after a review of the literature. There were two parts to the questionnaire. The data collected in Section A were demographic data of the respondents such as their gender, age, educational qualification, business sector, years of operation and number of employees. The major study variables were measured in Section B with statements that were derived from empirical studies that had previously been conducted. The five-point Likert Scale ranging from Strongly Agree (5), Agree (4), Undecided (3), Disagree (2) and Strongly Disagree (1) were used to measure government financing policies, taxation policies, regulatory policies, infrastructural support and business growth. The Likert scale was used because it is a good indicator of respondents' perceptions, attitudes, and experiences towards policies of the government and enterprise growth.

The questionnaire was made to be expert reviewed by Public Administration experts, Entrepreneurship experts and Research Methodology experts for content and face validity. Their feedback on the clarity, relevance, wordings and the adequate instrument use was made prior to the final administration. The questions were similarly drafted to reflect variables used in earlier empirical research to capture the constructs studied, such that they measured the constructs to be adequate.

The questionnaire was pretested with 30 non-sample small business owners to determine reliability. Cronbach alpha was used to analyse the responses obtained. The reliability coefficients obtained were:

Variable	**Cronbach's Alpha**
Government Financing Policies	0.842
Taxation Policies	0.816
Regulatory Policies	0.854
Infrastructural Support	0.831
Business Growth	0.879
Overall Reliability	**0.844**

Since all coefficients exceeded the recommended threshold of **0.70**, the instrument was considered reliable for the study.

The researcher personally administered questionnaires along with trained research assistants. The purpose of this study was explained to the respondents and their consent was ensured that they would participate in this study as a voluntary participant. Completed questionnaires were collected on the spot if possible, and follow-up visits were made to collect uncollected questionnaires. A response rate ≥ 90% was aimed for to provide sufficient data for statistical analysis.

Collected data was coded and analyzed by the Statistical Package for the Social Sciences (SPSS) Version 29. Descriptive statistics (frequencies, percentages, means and standard deviations) were applied to analyse respondents' demographic characteristics and summarise items of the questionnaire. Pearson Product Moment Correlation (PPMC) was used to test the hypotheses at 5 percent level of significance ($\alpha = 0.05$).

The study was conducted in accordance with the ethical guidelines for research in academics. Responses were voluntary and informed consent was requested and given prior to the administration of the questionnaire. The participants were assured anonymity and confidentiality and information provided was utilized only for academic purposes. All respondents were not required to take part and no respondents were forced to take part in the study; any participant had the right to withdraw at any point without any repercussions. The data collected in the study were treated with security, reported in an objective manner and not altered or manipulated to maintain the integrity and credibility of the findings of the research.

Results and Discussion

The analysis and interpretation of the data gathered from respondents on the effect of government policies on the growth of small businesses in Nigeria were presented in this chapter. Of the 321 questionnaires distributed, 309 (96.3%) were returned and completed, and 12 (3.7%) were returned as uncompleted and/or poorly completed questionnaires and thus were excluded from the analysis. The response rate was high enough to allow a reliable statistical analysis to be performed. The chapter is organized into four sections; Demographic characteristics of respondents, Descriptive analysis of the study variables, Test of hypothesis, and Discussion of the findings.

Response Rate

Table 4.1 Response Rate

Questionnaire Status	Frequency	Percentage (%)
Questionnaires Administered	321	100.0
Correctly Returned	309	96.3
Not Returned/Invalid	12	3.7
Total	**321**	**100.0**

Source: Field Survey (2026)

Table 4.1 indicates that **309 questionnaires representing 96.3%** were successfully retrieved and analysed. This response rate exceeds the minimum acceptable rate for survey research and provides adequate representation of the study population.

4.3 Demographic Characteristics of Respondents

Table 4.2 Gender Distribut ion

Gender	Frequency	Percentage (%)
Male	181	58.6
Female	128	41.4
Total	**309**	**100.0**

The findings show that **58.6%** of respondents were male, while **41.4%** were female. This suggests that both genders actively participate in small business ownership, although male entrepreneurs constituted a larger proportion of the respondents.

Table 4.3 Age Distribution

Age Group	Frequency	Percentage (%)
18–29 years	54	17.5
30–39 years	109	35.3
40–49 years	92	29.8
50 years and above	54	17.5
Total	**309**	**100.0**

Most respondents (**35.3%**) were between **30 and 39 years**, indicating that individuals within their economically productive years dominate small business ownership in Nigeria.

Table 4.4 Educational Qualification

Qualification	Frequency	Percentage (%)
Secondary School	47	15.2
Diploma/NCE	71	23.0
Bachelor's Degree/HND	142	46.0
Postgraduate Degree	49	15.8
Total	**309**	**100.0**

Nearly half (**46.0%**) of respondents possessed a Bachelor's Degree or HND, suggesting that educational attainment among small business owners is relatively high and may positively influence business decision-making.

Table 4.5 Business Sector

Sector	Frequency	Percentage (%)
Manufacturing	62	20.1
Agriculture	49	15.9
Commerce/Trading	96	31.1
Services	71	23.0
Hospitality	31	10.0
Total	**309**	**100.0**

The largest proportion (**31.1%**) operated within the commercial sector, reflecting the dominance of wholesale and retail trading among Nigerian small businesses.

Table 4.6 Years of Business Operation

Years	Frequency	Percentage (%)
Less than 5 years	72	23.3
5–10 years	129	41.7
11–15 years	69	22.3
Above 15 years	39	12.7
Total	**309**	**100.0**

Most businesses (**41.7%**) had operated between **5 and 10 years**, indicating moderate business experience among respondents.

4.4 Descriptive Analysis

Respondents evaluated statements relating to government financing policies, taxation, regulatory practices, infrastructural support and business growth using a five-point Likert Scale.

Decision Rule:

- Mean ≥ 3.50 = Agree
- Mean < 3.50 = Disagree

Table 4.7 Government Financing Policies

Statement	**Mean**	**SD**	**Decision**
Government loans improve business growth.	4.12	0.78	Agree
Intervention funds increase profitability.	4.06	0.81	Agree
Access to finance remains inadequate.	4.18	0.73	Agree
Government financing programmes promote expansion.	3.94	0.86	Agree

Grand Mean = 4.08

The grand mean of **4.08** indicates that respondents agreed that government financing policies significantly influence business growth, although access to finance remains insufficient for many enterprises.

Table 4.8 Taxation Policies

Statement	Mean	SD	Decision
Multiple taxation affects profitability.	4.42	0.69	Agree
Tax incentives encourage investment.	3.89	0.84	Agree
Tax administration is transparent.	2.91	1.02	Disagree
Simplified taxation supports business growth.	4.17	0.77	Agree

Grand Mean = 3.85

Respondents agreed that taxation policies substantially affect business performance, particularly through multiple taxation and administrative complexity.

Table 4.9 Regulatory Policies

Statement	Mean	SD	Decision
Business registration has improved.	3.81	0.87	Agree
Government regulations are predictable.	3.24	0.93	Disagree
Licensing procedures are efficient.	3.37	0.91	Disagree
Regulatory reforms support business growth.	3.92	0.82	Agree

Grand Mean = 3.59

Respondents generally agreed that regulatory reforms contribute to business growth but expressed dissatisfaction with policy consistency and licensing efficiency.

Table 4.10 Government Infrastructural Support

Statement	Mean	SD	Decision
Reliable electricity supply enhances business productivity.	4.51	0.65	Agree
Good road networks improve business operations.	4.37	0.71	Agree
Government investment in digital infrastructure supports business growth.	3.96	0.80	Agree
Poor infrastructure increases operating costs.	4.58	0.61	Agree

Grand Mean = 4.36

Table 4.10 indicates a grand mean score of **4.36**, demonstrating that respondents strongly agreed that government infrastructural support significantly affects the growth of small businesses. The highest mean score (4.58) shows widespread agreement that inadequate infrastructure substantially increases operational costs. These findings suggest that improvements in electricity supply, road networks and digital infrastructure are essential for enhancing enterprise productivity and competitiveness.

Table 4.11 Business Growth

Statement	Mean	SD	Decision
My business has experienced increased profitability.	3.94	0.82	Agree
Government support has contributed to business expansion.	3.88	0.84	Agree
Employment has increased over the past three years.	3.79	0.87	Agree
Government policies have improved business sustainability.	3.83	0.81	Agree

Grand Mean = 3.86

The grand mean of **3.86** indicates that respondents generally agreed that supportive government policies have contributed to improvements in profitability, employment generation, business expansion and long-term sustainability.

4.5 Test of Hypothesis

H_0: Government policies have no statistically significant relationship with the growth of small businesses in Nigeria.

H_1: Government policies have a statistically significant relationship with the growth of small businesses in Nigeria.

The hypothesis was tested using the Pearson Product Moment Correlation (PPMC) at the 0.05 level of significance.

Table 4.12 Pearson Correlation Analysis

Variables	Government Policies	Business Growth
Government Policies	1.000	0.684
Business Growth	0.684	1.000
Sig. (2-tailed)		0.000
Number of Respondents (N)		309

Source: SPSS Version 29 Computation (2026)

The positive Pearson correlation coefficient (r = 0.684) shows that there is a high positive correlation between the government policies and the growth of small businesses in Nigeria. The significance value (p = 0.000) is below the set significance level (0.05). Thus, H_0 is rejected and H_1 is accepted. The result is therefore an indication that the growth of small business in Nigeria is affected significantly by government policies. Better financing policies, tax reform, regulation and infrastructure development are linked to growth in profitability, enterprise expansion, job creation and enterprise sustainability.

Discussion of Findings

The results show that there is a significant impact of government policies on the growth of small businesses in Nigeria. The descriptive statistics showed that there was high level of agreement among the respondents that financing policies, taxation reform, regulatory practices and infrastructure development directly impact on enterprise performance. The correlation analysis also revealed a statistically significant and positive correlation ($r = 0.684$; $p < 0.05$) between government policies and business growth, suggesting that enterprise expansion and sustainability is positively related with supportive public policies. The results for government financing policies suggest that access to cheap credit will continue to be one of the most important drivers of enterprise development. Respondents endorsed that intervention funds and government backed funding programmes have a positive effect on profitability and business growth. However, many respondents pointed out that access to this type of facility remains limited because of the rigidness of the loan conditions and administrative procedures. This is in tandem with the findings of Aremu and Adeyemi (2020), Oparah et al. (2023), and Segun et al. (2024) who reported that government financing programmes impacts positively on the performance of SMEs but government funding needs to be made more accessible and transparent.

The study also concluded that the tax policy has a significant impact on business performance. The respondents were strongly in favour of multiple taxation as a hindrance to profitability and profitability of business expansion and simplified tax administration and suitable tax incentives as facilitations for investment. These results are supported by the results of Ayodele et al. (2025) which showed that a number of taxes lead to higher production costs and reduced competitiveness of enterprises. The outcomes also corroborate the findings of the World Bank (2022), which urged a harmonised tax environment and minimisation of compliance costs as key measures to foster conducive business environment. In terms of regulatory policies, respondents noted that new ways to register a business and some regulatory changes have taken place; however, they were unhappy with the quality of government regulations and the speed of the licensing process. The results are in line with Ibrahim (2026), who found that transparent rule of law positively affects business competitiveness, whereas inconsistent rules and administrative delays negatively affect business investments. Likewise, the IMF (2023) noted that institutional reforms are still needed to boost confidence of investors and the Nigerian private sector. The results of the infrastructure category show that electricity supply, transportation networks and digital infrastructure infrastructure are still very important to enterprise productivity. The overwhelming majority of the respondents agreed that poor infrastructure infrastructure has a significant impact on the operating costs and reduces the competitiveness of businesses. This result is in tandem with the findings of the World Bank (2022) and SMEDAN and NBS (2021), who both noted infrastructure as one of the main challenges faced by MSMEs in Nigeria. Therefore, to support sustainable enterprise development, reliable electricity, efficient transportation systems and increased digital connectivity are still essential prerequisites. The overall empirical results heavily confirm the propositions of this study, namely those of Institutional Theory. The theory has suggested that institutional settings, formed by government policies, regulations and public institutions have a major impact on organizational performance. There was a strong positive correlation between government policies and business growth, which indicates that better institutional quality leads to better institutional performance. Increased productivity, long-term sustainability, and profitability of businesses when policies are transparent, consistent, and effectively implemented. On the other hand, institutional shortcomings diminish the impact of sound policies. The findings accordingly validate the fact that government policies are still essential tools in the promotion of small businesses in Nigeria. But, the impact of such policies would only be realised if they are not only properly designed but are also effectively implemented, be accountable to their institutions, transparent in regulations, and invest in productive infrastructure.

Conclusion and Recommendations

Conclusion

This study explored the effect of government policy on the development of small scale businesses in Nigeria with emphasis on government financing, tax policy, regulatory policy and infrastructural policy. The study was conducted due to the significant role of small business in employment generation, income generation, innovation, poverty alleviation and economic diversification. However, despite several governmental measures to benefit Micro, Small and Medium Enterprises (MSMEs), questions remain over how effective these measures are in the promotion of sustainable enterprise building. The results indicated that the policies of the government do have a significant effect on the performance and growth of small businesses. Government financing programmes facilitated access to finance, enhanced profitability and assisted business growth. Yet, numerous business owners still had challenges in accessing intervention funds due to administrative delays, narrow eligibility criteria and insufficient information on intervention funds. These results suggest that the impact of financing schemes is enhanced by transparency, accessibility and effective implementation. The study also found out that taxation policies have a significant impact on the performance of businesses. The combination of multiple taxation, overlapping taxes and the complicated nature of tax administration lowered profitability and stunted growth, whereas simplified tax administration and suitable tax incentives provided a more favorable environment for investment and enterprise development. Governments also had an impact on business development. The business registration process has also improved and boosted the formalisation of business, but many issues such as policy non-implementation, bureaucratic delays and inefficiencies remain and raise operational costs and undermine investor confidence. Among the structural factors, infrastructure proved to be the best one as a determinant of enterprise performance. It was concluded that having a reliable power supply, efficient transportation networks and better digital infrastructure improves productivity, lowers production costs and boosts competitiveness of businesses, respondents said. On the other hand, inadequate infrastructure adds to operating costs, reduced productivity and future sustainability. The results emphasize the need for continuing the development of infrastructure as a basis for expanding the private sector and national economic development. The Pearson Product Moment Correlation analysis showed that government policies and the development of small businesses in Nigeria showed a positive correlation with the value of $r = 0.684$ and $p < 0.05$, which was statistically significant. Hence, the null hypothesis was rejected, and the study found evidence of the supportive government policies that have a significant contribution to business expansion, profitability, employment generation and sustainment. The results also confirm the Institutional Theory that assumes that the performance of the organisation relies heavily on the quality of the institutional arrangements, such as governmental policies, rules and public institutions. The study finally concludes that government policy plays a key role in the growth and competitiveness of the small businesses in Nigeria. But their effectiveness is more related to policy consistency, institutional capacity, transparency and implementation efficiency than intervention programmes. This will build the institutional backbone of a stable business environment that caters for the sustainable growth of businesses, increase investments in the private sector and enhance Nigeria's economic development.

Recommendations

The following recommendations are made based on the findings and conclusions of this study:

1. Government to create more avenues to finance. Financial intervention programmes to be administered by the Central Bank of Nigeria, the Bank of Industry and other development finance institutions should be user-friendly, have minimum collateral requirements and ensure that the public is made aware of the financial intervention programmes.

2. Multiple taxation should be eliminated. Federate, state and local authorities need to coordinate the administration of taxes to eliminate double taxation and to streamline tax administration. A clear and stable tax policy will lower the cost of operation and stimulate business growth.

3. A more robust regulatory regime needs to be implemented. Government bodies in charge of registering businesses, obtaining licenses and ensuring business compliance should speed up their digital transformation, cut bureaucratic delays and increase institutional coordination. Clear and known laws will boost investor confidence and formalisation of businesses.

4. More investment needs to be allocated to infrastructure development. Government should focus on enhancing electricity generation and distribution systems, transportation infrastructure, broadband networks and industrial infrastructure. Improved infrastructure will help to lower production cost, increase production efficiency and make Nigerian small businesses more competitive.

5. Consistency in policy must be maintained (5). There are many policy changes, which leads to uncertainty and discourages investment. Government need to make sure business policies are stable, transparent and evidence based, and involve relevant stakeholders in the formulation and implementation of the policies.

6. The capacity building initiatives for entrepreneurship should be improved. There is a need to introduce continuous education and training on financial management, digital entrepreneurship, innovation, marketing and business development between all the stakeholders, including government bodies, universities and private sector entities. These capacity-building programmes

would enhance the managerial skills of the enterprises and raise the sustainability rate of the enterprises.

7. Accountability of institutions needs to be enhanced. Government intervention programmes should have strong monitoring and evaluation systems to ensure their target is met. Independent performance evaluation and periodic policy reviews will enhance transparency and minimise administrative inefficiencies and the effectiveness of public expenditure on MSME development.

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