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POLAC MANAGEMENT REVIEW (PMR)
DEPARTMENT OF MANAGEMENT SCIENCE
NIGERIA POLICE ACADEMY, WUDIL-KANO



IMPACT OF PUBLIC POLICIES ON THE PERFORMANCE OF SMEs IN NIGERIA

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Abstract

Small and Medium Enterprises (SMEs) play a critical role in Nigeria's economic development through job creation, innovation, and poverty reduction. However, their performance is significantly influenced by public policy frameworks, including tax regulations, credit policies, and licensing procedures. This study investigates the impact of public policies on the performance of SMEs in the Northern Zone of Plateau State, Nigeria. A survey research design was adopted, and data were collected from 140 SMEs across various sectors using structured questionnaires. The study employed descriptive statistics and multiple regression analysis to examine the influence of three key government policies: taxation, credit, and licensing on SME performance indicators such as sales growth, market share, and firm size. Results revealed that while government tax and licensing policies had statistically insignificant effects, credit policy showed a significant negative impact on SME performance, suggesting that unfavorable credit conditions constrain SME growth. The findings imply that restrictive interest rates and limited access to finance are major challenges facing SMEs. Recommendations include revising credit policies, improving financial inclusion programs, and exploring alternative financing mechanisms to foster SME development and economic growth. Future research should investigate additional factors influencing SME performance and assess the long-term impact of government interventions.

Keywords: SME Performance, Government Policies, Credit Accessibility, Taxation, Business Growth.

1. Introduction

It is a global phenomenon that Small and Medium Enterprises (SMEs) are regarded as significant traditional contributors to economic growth. This is because they serve as a catalyst for employment generation and poverty reduction (Attah, Iji & Angioha, 2019). SMEs world over have been the major employers of labour within most economies compared to the major industries including the multinationals. Adanlawo and Vezi-Magigaba (2021) reported that SMEs have been a good avenue for job creation and empowerment of Nigerian citizens; with provision of jobs for almost 50% of Nigerian labour force. The significance of SMEs in the sustenance of economy, reduction in poverty, advancement in employment, innovation in technology and elevating in economic wellbeing and standard is comprehensively recognized particularly in developing nations (Eniola & Ektebang, 2014).

Igbinovia and Okoye (2017) opine that the impact of SMEs is felt in the utilization of natural resources, thereby, expanding the nation's wealth through higher productivity. Job provision through SMEs have impacted many lives, providing regular income and provision of basic needs of life; particularly for those in the rural areas. Multiple studies have presented a wide range of factors that determine the survival as well as the performance of SMEs (Hyder & Lussier, 2016).

Alongside other factors, the issue of poor strategic planning behaviors has been declared a significant contributor to high failure rates (Taneja et al., 2016). SMEs continue to encounter difficult situations, trimming performance, causing inability to remain buoyant, feasible and innovative, thus, choking the sustainability and growth of the firm (Bushe, 2019). In fact, due to limited resources and the intense struggle for survival,

these businesses tend to be carried away by daily operations to the extent of ignoring long-term planning which then negatively impacts their growth and survival (Kankaras et al., 2018; Taneja et al., 2016). While many of them often die before their fifth anniversary, several others secure their survival by embarking on diverse practices aimed at gaining competitive advantage (Michael; Adekunle & Adeboye, 2019). Due to numerous contributions of SMEs to the economy, the effects of legal and regulatory framework on aggregate economic performance caught the attention of both policymakers and other key players in recent years (Mabonga & Daniel 2015). After recognising the growing potential in the SME sector, many countries rolled out a number of policies (Yoshino & Taghizadeh-Hesary, 2016) to promote SMEs growth and development. These initiatives were meant to assist SMEs access funding, training programmes and technological development (Hou, 2006). This implies that any government wishing to transform its negative economy should support the proliferation of SMEs and invest in them (OECD, 2010). The government launched many interventions to stimulate the growth of this giant promising sector. Government in Nigeria has focused on SMEs by formulating policies aimed at enhancing the performance and growth of the sector (Eniola & Entebang, 2015; Ibrahim, 2017).

Muriithi (2017) have identified tax related issues among several factors for untimely close down of the SMEs. This implies that the survival of most of the SMEs are determined by their ability to survive tax related issues amidst other economic challenges. According to Michael (2014), government introduces various sort of taxes in an attempt to increase revenues, and these taxes invariably impacted negatively on small and medium scale businesses. For SMEs to survive and to continue to operate smoothly, there is need for government to structure policies, particularly tax policies that will support the development and improvement of these ventures to guarantee their survival at maximum capacity (Eyitayo & Makhosazana, 2022).

The government's credit policy and banks' interest rates can also have considerable effects on economy as well as

the business environment (Okojie, 2013). For instance, if the bank's lending rate is high, then SMEs will be discouraged to borrow from the financial institution. Unfortunately, such trend will result to a considerable fall in the rate of investments, as SMEs will not have enough money for more investments.

Furthermore, regulatory constraints also pose serious challenges to SMEs performance (Kauffmann, 2007) and although wide-ranging structural reforms have led to some improvements, prospects for enterprise development remain to be addressed at the firm level (Wanjohi & Mugure, 2008). Licensing and registration requirements, as well as high cost of settling legal claims, and excessive delays in court proceedings adversely affect SMEs operations, hence, there is need to devise strategies to enhance a supportive, conducive and regulated environment for small businesses to thrive. This study therefore focuses on the impact of public policies on the performance of SMEs in Northern Zone of Plateau State.

Statement of the Problem

Small and Medium Enterprises (SMEs) sector accounted for 90 percent of the total persons engaged in employment and contributed up to 40% of the GDP of emerging economies (World Bank, 2021). Further, the Economic Recovery Strategy for Wealth and Employment Creation recognized the need to establish and maintain a conducive environment for the growth and transformation of SMEs into medium sized enterprises that have capacity to create more employment opportunities (RoK, 2017). Despite these initiatives, it was revealed that the established enterprises have a very low survival rate, with serious challenges leading to 60 percent failures in performance within the first three years of operation (Sharu & Guyo, 2015). This poor performance has hampered their ability to contribute to the growth of GDP as required. It also makes them unable to compete with other larger businesses including multinational corporations, or take full advantage of the economy and access the global markets for profitability and sustainability (Gichuke, 2013).

The governments have come up with policies that increase the rate of taxation, changed the licensing procedures, and increased the credit policies related to entrepreneurial financing (Gichuke, 2013). While government financing shows high small business birth-rates, the business failure or stagnation is equally high. Despite many studies having been done in the past on performance of SMEs, the effects of public policies on Small and Medium Enterprises performance in Northern Zone of Plateau State have not been adequately identified and, hence the research gap this study aims to address. This study therefore seeks to investigate impact of public policies on the performance of SMEs in Northern Zone of Plateau State.

Objective of the Study

The main objective of this study is to investigate the effect of public policy on the performance of SMEs in Nigeria. The specific aim of the study include:

- To analyze the existing public policies relevant to SMEs in Nigeria and their implications on SME performance.

- To investigate the relationship between specific public policies, such as taxation, trade regulations, and business support programs, and the performance metrics of SMEs in Nigeria.

2. Literature Review

Government policies are regulatory pronouncements or instruments that regimes employ to guide the conduct of businesses (Tahir & Inuwa, 2019). Policies can be implemented through various instruments comprising tax incentives, grants or direct subsidies, low-interest loans, and the government's direct equity participation. Tende (2014) ascertain that government laws are intended to restrain the connection between the SMEs and the economic growth of a nation through wealth creation and job creation. Government rules support agencies are institutions that aim at adaptable and improving the situation of SMEs in terms of supportive, execution and funding policies by the government (Bouazza, Ardjouman & Abada 2015).

Government regulations can deter or enhance small businesses (Sathe, 2006). Similarly, government can also implement restrictive policies such as fiscal policies that

aim to control business operations or autonomy (Eniola & Entebang, 2015). Based on this definition, government sustain agencies as it relates to SMEs businesses is targeted at encouraging by making a favorable environmental law for the SMEs by making favorable surroundings for the entrepreneurs. This, it does through enactment of guidelines that will regulate policies that will help and that reduce the problems of SMEs which is the bedrock of nation's path to industrialization. Government needs to endorse rules that would be user friendly to the SMEs (Ahiawodzi, & Adade 2014).

Micheal and Jones (2013) posited that government at various levels establish, anti-trust and labour laws, product labeling requirements, taxation and various other kinds of government regulations and control. Ibekwe (2014) viewed the significance of policy making at government level and the objectives of policies of a country increase output, reduction of inflation, reduction of employment, diminution of economy inequality and trade balance creation. Further, the need to change the role of government, empower the private sector, and increase the competitiveness of the economy and interaction with the rules of globalization, etc., necessitates the policies based on the economic liberalization and strengthening of the private sector to develop economic activities (Gregg & Parthasarathy, 2017). For SMEs to survive and to continue to operate smoothly, there is need for government to structure policies, particularly tax, credit and licensing policies that will support the development and improvement of these ventures to guarantee their survival at maximum capacity. This implies that there is need for governments to reform policies and conditions that have a bearing on firm creation and expansion, with the end goal of enhancing the contributions that these businesses can make to economic growth (Taiwo, Falohun & Agwu, 2016).

Public policies in Nigeria and SMEs performance.

The referenced studies collectively shed light on the intricate relationship between public policies and the performance of Small and Medium Enterprises (SMEs) in Nigeria. They emphasize the pivotal role of public policies in shaping the business environment for SMEs, highlighting challenges such as limited access to finance,

infrastructure deficiencies, and regulatory obstacles (Oyelaran-Oyeyinka & Adeyeye, 2016). Additionally, the studies identify key policy areas like taxation, access to finance, and regulatory frameworks as significant determinants of SME performance (Adeoti & Olokundun, 2018). Policy inconsistencies and implementation challenges are recognized as critical barriers to SME growth and sustainability, underscoring the need for coherent and effective policy measures (Ibitoye & Ibidunni, 2017). Moreover, SMEs are acknowledged as vital contributors to employment generation in Nigeria, emphasizing the importance of supportive policies to enhance their performance and foster economic development (Aremu & Adeyemi, 2011). These insights provide a comprehensive understanding of the dynamics between public policies and SME performance, offering valuable guidance for further analysis and policymaking endeavors aimed at optimizing SME contributions to Nigeria's economy (Okonkwo & Ezejiofor, 2018).

Challenges faced by SMEs in Nigeria as a result of public policies:

This study aims to assess the challenges confronting Small and Medium Enterprises (SMEs) in Nigeria due to public policies, focusing on regulatory burdens, access to finance, and market entry barriers. Public policies often impose complex regulatory requirements on SMEs, leading to compliance difficulties and operational inefficiencies (Oyelaran-Oyeyinka & Adeyeye, 2016). Additionally, limited access to finance, exacerbated by high-interest rates and ineffective government interventions, poses significant obstacles to SME growth (Adeoti & Olokundun, 2018). Moreover, market entry barriers such as trade restrictions and tariffs hinder SMEs' competitiveness both domestically and internationally (Okonkwo & Ezejiofor, 2018). By examining these challenges, this study seeks to provide insights into the impact of public policies on SMEs in Nigeria and offer recommendations to enhance their business environment and foster sustainable growth.

Government Tax Policy and Performance of SMEs

The tax play's important role in the growth of small and medium enterprises (MSEs). According to Aribaba et al. (2019), tax policy can influence small business activities

in different manners. In a situation, whereby, small business income is taxed uniquely in contrast to wage income, this can affect the business. Ojeka (2011) asserts that SMEs tax must be done in such a way that places the income and need of the operators into consideration.

Igbinovia and Okoye (2017) also add that double taxation, lack of tax consultant, improper tax planning, high taxation costs are part of the factors affecting SMEs. Ojeka, (2011) avows that the lower the amount of taxes paid by the SME, the more the project the business will embark-on with the profit generated. Ocheni and Gemade (2015); Oladipupo and Obazee (2016) affirm that numerous tax collection has negative impact on SMEs' survival and the relationship between SMEs' size and its capability to pay taxes is momentous.

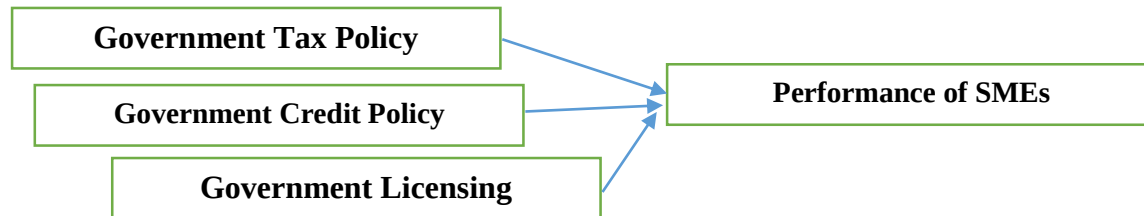
Agwu and Emeti (2014) showed that multiple taxes are a huge constraint to maximizing profits that could be ploughed back into the business for expansion and growth. Eniola and Entebang (2015) note that tax waiver incentives also encourage small businesses to grow and expand. Okpara (2011) found that policies promoting MSME access to capital and equipment, loans as well as exemptions have reduced MSMEs costs, enhanced profits and growth.

Okolo, Okpolaojiego and Okolo (2016) assert that the issues of multiple taxes on the small business by different tiers of government have now become a deterrent to business activities. Similarly, Adebisi and Gbegi (2013) postulate that in many government policies, SMEs are usually viewed and treated in the same light as large organisations. Nevertheless, their size and nature of business make them distinctive. Therefore, in dealing with SMEs, these remarkable characteristics should be thought of when collecting taxes. Issues that should be considered are the manner by which these tax policies can support the development of SMEs and the best approaches to administer them. Seemingly, the tax levied on small businesses ought to be lighter and the fight against corruption and tax evasion should be much more intense. Tax policies can be structured in such a way that they do not only directly influence SMEs but also

indirectly push for deliberate compliance and their growth.

Government Credit Policy and Performance of SMEs

The government's credit policy and banks' interest rates can also have considerable effects on economy as well as the business environment (Okojie, 2013). For instance, if the bank's lending rate is high, then SMEs will be discouraged to borrow from the financial institution. Unfortunately, such trend will result to a considerable fall in the rate of investments, as companies will not have enough money for more investments. Government has identified the need for the improvement of SMEs. One of such strategies is the preamble and search of rules such as concessionary financing to support and fortify the growth of SMEs in Nigeria. Effects of a credit policy are either good enough to bring growth and profits or bad enough to bring declination and losses.



3. Methodology

3.1 Research Design

In this study, the survey research design will be utilized. Quantitative data will be gathered to establish the effect of the independent variable (public policy) on the dependent variable (performance of SMEs). The choice of the survey research design will be grounded on the fact that it will help researchers collect data from respondents regarding their views and knowledge concerning the study variables to achieve the study objectives. The justification for the choice of the survey research design will be that it will help to elicit the opinions of respondents on public policy on the

Government Licensing and performance of small and medium enterprises

Tolentino (2005) argue that a legal and regulatory framework which results into excessively complex registration and licensing requirements and demands tedious and costly reporting practices is likely to impose constraints on the SMEs activities in addition to placing heavy burden on entrepreneurs and their businesses (Tolentino, 2005). In addition to stimulating the creation of new enterprises and fostering their viability and growth, an environment that is supportive to MSEs is likely to contribute to the effectiveness and sustainability of support programs (Tolentino, 2005). Generally, centralization of licensing is considered to play a major part in bureaucratizing.

performance of SMEs in the Northern Zone of Plateau State.

3.2 Population of the Study

The population of this study will comprise 319 SMEs in Plateau State (NBS/SMEDAN, 2023). The study will focus on only owners/managers of SMEs in the study area. The decision to focus on only the owners/managers of these SMEs will be informed by the fact that they will be presumed to be more knowledgeable and will also be in a better position to provide relevant information on how public policy affects the performance of their enterprises in terms of sales growth, employment growth, market share growth, and firm size growth. The population of the study is shown in Table 1 below.

Table 1: Population of the Study

SMEs Firms	Population	Percent
Manufacturing	89	27.9
Educational services	58	18.2
Agro-business	38	11.9
Artisan	49	15.4
Medical services	38	11.9
Fashion and Design	47	14.7
TOTAL	319	100

Source: NBS/SMEDAN (2023).

3.3 Sample Size

The total sample size of 177 SMEs will be drawn from seven (7) major groups of SMEs: Medical services, Fashion and Design, Manufacturing, Educational services, Artisan, and Agro-business. Based on the population, a normal confidence level of 95% and an error tolerance of 0.05% will be used. The final sample size for this study will be based on Yamane's formula (1967). The statistical formula is stated as follows: $n = N / (1 + N * e^2)$.

Where n = Sample size; N = Population size; e = level of significance desired.

Given that: $N = 319$ and $e = 0.05$, the sample therefore = $319 / (1 + 319(0.05)^2)$

= $319 / (1 + 0.7975(0.05)^2)$

= $319 / 1.7975$

Sample size is = 177.

3.4 Sampling Techniques

According to Kothari (2004), the sampling technique is the process of selecting some respondents for the study. The study will use simple random sampling. It will lessen bias and ensure that the results can be confidently generalized to a larger group. The possibility of bias entering the sample will be reduced with the use of random selection.

3.5 Method of Data Collection

The instrument used for data gathering in the study will be a questionnaire. The questionnaire will be designed in close-ended patterns and administered directly to the operators of the SMEs within the Northern Zone of

Plateau State. It will consist of two (2) sections, A and B. Section A will contain demographic and personal information about the respondent, including sex, age, marital status, and educational qualification. Part two will consist of items related to the research questions meant to be answered by the respondents. All responses will be measured using a five-Likert scale ranging from "strongly disagree" (1) to "strongly agree" (5). The use of the 5-point Likert scale will be necessary because Krosnic and Fabrigar (1997) posit that a scale of 5 to 7 points is more reliable and valid than a shorter or longer scale. Additionally, it will be an interval scale that will enable a researcher to analyze questionnaire responses using parametric tools.

3.6 Method of Data Analysis

The study will employ descriptive and inferential statistical tools to analyze the collected data. These will involve the use of mean, standard deviation, and maximum and minimum values. Simple percentage and the presentation of data using tables with the aid of Statistical Packages for Social Sciences (SPSS) will also be utilized. Multiple regression analysis will be used to test the formulated hypotheses. Additionally, the data will be screened for skewness and normality.

3.7 Model Specification

The multiple regression models is specified as:

Multiple regression $B_n X_n + e$

The regression model is specified as: $\gamma = B_0 + B_1 X_1 + B_2 X_2 + B_3 X_3 + e$ Where γ = SMEs Performance

B_0 = Constant term B_x = Coefficient to be estimated

X_1 = Taxation Policy

X_2 = Credit Policy X_3 = Licensing Policy $b_1 + b_2$ = Regression Coefficient**Table 2: Descriptive Statistics**

Gender	Frequency	Percent
Male	76	54.286
Female	64	45.714
Total	140	100.000
Age Bracket		
18-30	63	45.000
31-45	56	40.000
46-56	18	12.857
57 and above	3	2.143
Total	140	100.000
Educational Background		
First Degree/ HND	65	46.429
Diploma	41	29.286
Secondary School	22	15.714
Others	7	5.000
Primary School	5	3.571
Total	140	100.000
Marital Status		
Single	79	56.429
Married	61	43.571
Total	140	100.000
Years of Establishment		
4-6 years	64	45.714
1-3 years	33	23.571
Less than 1 year	21	15.000
Over 10 years	5	3.571
7-10 years	17	12.143
Total	140	100.000

The sample in Table 2 consists of 140 individuals who filled and returned the questionnaire out of the 177 distributed. The 140 individuals had a gender distribution of 76 males (54.29%) and 64 females (45.71%), with no missing data. The age distribution is spread across four brackets, with the largest group being 18-30 years (63 individuals, 45%), followed by 31-45 years (56 individuals, 40%), 46-56 years (18 individuals, 12.86%), and 57 years and above (3 individuals, 2.14%). The educational background varies, with most holding a First Degree or HND (65 individuals, 46.43%), followed by Diploma holders (41 individuals, 29.29%), and those with Secondary School education (22 individuals, 15.71%). A smaller percentage completed only Primary School (5 individuals, 3.57%), while 7 individuals (5%) fall into the "Others" category.

Regarding marital status, 79 individuals (56.43%) are single, while 61 (43.57%) are married, with no missing data. The distribution of years of establishment indicates that 64 individuals (45.71%) have 4-6 years of service, followed by 33 individuals (23.57%) with 1-3 years, and 21 individuals (15%) with less than 1 year of service. Additionally, 17 individuals (12.14%) have 7-10 years of experience, while 5 individuals (3.57%) have served for over 10 years. The cumulative percentage reaches 100% across all categories, ensuring a comprehensive representation of the sample.

4. Results and Discussion

4.1 Linear Regression

Table 3: Model Summary - Performance of SMEs

Model	R	R ²	Adjusted R ²	RMSE
M ₀	0.000	0.000	0.000	1.049
M ₁	0.630	0.397	0.382	0.825

Note. M₁ includes Government Licensing, Government Tax Policy, Government Credit Policy

The model summary in Table 3 for SME performance indicates that the baseline model (M₀) has an R, R², and Adjusted R² of 0.000, suggesting no explanatory power, with a Root Mean Square Error (RMSE) of 1.049. However, when Government Licensing, Government Tax Policy, and Government Credit Policy are included in Model M₁, the explanatory power significantly improves,

with an R of 0.630, an R² of 0.397, and an Adjusted R² of 0.382, indicating that these factors explain approximately 39.7% of the variance in SME performance. The RMSE decreases to 0.825, further suggesting an improved model fit.

Table 4: ANOVA

Model		Sum of Squares	df	Mean Square	F	p
M ₁	Regression	52.006	3	17.335	25.472	< .001
	Residual	78.946	116	0.681		
	Total	130.952	119			

Note. M₁ includes Government Licensing, Government Tax Policy, Government Credit Policy

Note. The intercept model is omitted, as no meaningful information can be shown.

The ANOVA results for Model M₁ in Table 3, which includes Government Licensing, Government Tax Policy, and Government Credit Policy, indicate a

significant overall model fit, $\chi^2(3, 116) = 25.472, p < .001$). The regression model explains a total sum of squares of 52.006, with a mean square of 17.335, while the residual sum of squares is 78.946, with a mean square

of 0.681. The total sum of squares for the model is 130.952, highlighting that the included variables significantly contribute to explaining the variance in SME performance.

Table 4: Coefficients

Model		Unstandardized	Standard Error	Standardized	t	p
M ₀	(Intercept)	2.708	0.096		28.282	< .001
M ₁	(Intercept)	5.650	0.345		16.364	< .001
	Government Licensing	-0.141	0.181	-0.109	-0.778	0.438
	Government Tax Policy	-0.164	0.213	-0.129	-0.772	0.442
	Government Credit Policy	-0.566	0.227	-0.417	-2.499	0.014

The regression results for Model M₁, which includes Government Licensing, Government Tax Policy, and Government Credit Policy, show that the intercept is significant ($B = 5.650, SE = 0.345, t = 16.364, p < .001$), indicating a baseline level of SME performance when all predictors are zero. Government Licensing has a negative but non-significant effect on SME performance ($B = -0.141, SE = 0.181, t = -0.778, p = 0.438$), suggesting that changes in licensing policies do not significantly influence SME performance. Similarly, Government Tax Policy also shows a negative but non-significant effect ($B = -0.164, SE = 0.213, t = -0.772, p = 0.442$), implying that variations in tax policies do not substantially impact SME performance in this model. However, Government Credit Policy has a significant negative effect on SME performance ($B = -0.566, SE = 0.227, t = -2.499, p = 0.014$), suggesting that restrictive credit policies negatively impact SMEs.

4.2 Hypothesis Discussion:

-H₁: Government Licensing positively affects SME performance– Not supported, as the coefficient is negative and non-significant ($p = 0.438$).

-H₂: Government Tax Policy positively affects SME performance –Not supported, as the coefficient is also negative and non-significant ($p = 0.442$).

-H₃: Government Credit Policy positively affects SME performance – Rejected, as the coefficient is negative and significant ($p = 0.014$), indicating that government credit policies may be restrictive or unfavorable for SME growth.

Overall, the findings suggest that while licensing and tax policies do not have a statistically significant impact, government credit policies may have a detrimental effect on SME performance.

4.3 Discussion of Findings

The findings from this study provide critical insights into the impact of government policies on the performance of SMEs. The results indicate that Government Licensing and Government Tax Policy do not significantly influence SME performance, as reflected by their negative but non-significant coefficients. This suggests that while these policies exist, they may not be primary determinants of business success or failure in the SME sector. In contrast, Government Credit Policy has a significant negative

effect on SME performance, implying that restrictive or unfavorable credit policies hinder business growth. This could be due to high-interest rates, stringent loan qualification criteria, or limited access to financial resources for SMEs, ultimately affecting their sustainability and expansion.

Contribution and Implications for Future Research

This study contributes to the growing literature on SME development by highlighting the differential impact of various government policies. While previous studies have emphasized the importance of regulatory frameworks and taxation on business success, this study underscores the critical role of financial accessibility. The findings suggest that policymakers should reassess existing credit policies to create more SME-friendly financial environments. Future research should explore the nuances of credit policy implementation, the role of financial institutions in SME financing, and the potential moderating factors, such as business size, industry type, and regional economic conditions. Additionally, qualitative research could provide deeper insights into SMEs' experiences with government regulations and financing.

5. Conclusion and Recommendations

This study examined the relationship between government policies and SME performance, focusing on licensing, taxation, and credit policies. The results indicate that while licensing and tax policies do not significantly impact SME performance, credit policies play a detrimental role. This suggests that access to

financial resources remains a key challenge for SMEs, necessitating urgent policy intervention. The findings highlight the need for more inclusive and supportive credit policies that facilitate business growth rather than act as a constraint.

Based on the findings, the study recommends that:

1. Review of Government Credit Policies– Policymakers should revise existing credit policies to enhance SME access to affordable financing. This can be achieved by reducing interest rates, simplifying loan application processes, and offering government-backed loan guarantees.
2. Improved Financial Inclusion Programs– Government agencies and financial institutions should implement financial literacy programs to educate SMEs on funding options, credit management, and loan application strategies.
3. Tax Incentives for SMEs– Although tax policy did not show a significant effect, government incentives such as tax reductions, rebates, or deferrals can encourage business growth and sustainability.
4. Streamlining Licensing Processes– Simplifying the licensing process can reduce bureaucratic bottlenecks, making it easier for SMEs to register and operate legally.
5. Further Research on SME Financing – Future studies should examine the underlying reasons behind the negative impact of government credit policies and explore alternative financing mechanisms such as microfinance, venture capital, and crowd funding.

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