Assessing the effects of fiscal policy on micro, small, and Medium-scale enterprises' performance in Nigeria

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Abstract

This study investigated the impact that fiscal policy has on the performance of the Micro, Small and Medium-Sized Enterprises (MSMEs) in Nigeria between 1998 and 2023. Particularly, the paper assessed the impacts of government expenditure and fiscal multiplier on MSMEs growth, profitability, and sustainability. It was a quantitative research design because its research methodology assumed an ex post facto research design, a reliance on secondary source of data taken as the sources of data are: Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS), and Federal Inland Revenue Service (FIRS). The sample of the data covered 25 years and was based on the main indicators of fiscal policy government spending and the fiscal multiplier and the indicators of MSMEs performance. The data collection process used time-series data of the official government data in form of national statistics which has been analysed by the econometric methods such as the Ordinary Least Squares (OLS) regression method and Correlation analysis to determine the nature of relationship that exists between fiscal policy and MSMEs performance. The results revealed that government expenditure t= 0.4715; p>0.05 made a positive impact on the growth of MSMEs where the fiscal multiplier moderated the state influence upon the phenomena significantly. It was also discovered in the study that the greater effect of the fiscal multiplier impact could be seen where the government spending was focused on productive areas which enhanced the activities of the MSMEs. This however had different effects in different sectors, this is why different fiscal interventions are necessary. The research findings were on the fact that a well-tuned fiscal policy, especially an efficient government expenditure and a strong fiscal multiplier effect, was essential to improve the performance of MSMEs in Nigeria. The findings gave good ideas to the policy makers on how to encourage the development of MSMEs using meaningful fiscals strategies.

Keywords: Fiscal policy, MSMEs and Performance

Introduction

At the very start God created heaven and earth and all the things that are present there were fashioned beautiful and placed man in control who is to reign over the resources Genesis chapters (1-3). But as man was driven out on account of his disobedience by God, the abundance in the garden was lost. The economic issues of what to produce, how to produce it, when and where and whom to produce economic issues arose out of the means of survival and the one way of solving this economic problem is through Micro, Small and Medium Scale Enterprises.

Micro, Small and Medium Scale Enterprises (MSMEs) is an important sector in the economic growth of Nigeria and this is because they provide employment and are the contributors to the growth of GDP Adeosun, & Shittu, (2021) This sector is termed as the shadow economy and mostly deals in unregulated economic activities which do not record in the official statistics but it is an important part of the economy. According to an estimate, (MSMEs) provides anywhere between 40 to 60 percent of GDP in most of the sub-Sahara Africa (SSA) countries, thus, providing livelihoods to millions of individuals who would have been unemployed otherwise Organisation for Economic Cooperation and Development (OECD, 2020).

About 15-20 percent of people in SSA depend on MSMEs to support their livelihoods and boost their economies, as well as spark innovation, job growth, and poverty reduction (International Finance Corporation, 2021). They provide employment rates that are above 50 percent and supply more than 90 percent of businesses in SSA (World Bank, 2022). Nevertheless, the environment in which those businesses are usually operating is quite problematic with poor access to funding, poor infrastructure, and a complicated legislative system. They further complicate the performance of MSMEs through the development of the informal sector that marches outside these formal legal and regulatory frameworks. On the one hand, informal sector offers a survival net to the many since it generates an enormous online and engulfs a big part of the workforce that the official sector fails to swallow. Conversely, it poses a serious competition to MSMEs and this has created imperfect competition in the market since it can afford to provide its services at a cheaper cost and less compliance requirements (AfDB, 2023). The activities of MSMEs are heterogeneous with the inclusion of activities, such as street vending, low-level manufacturing, and informal financial service offerings (ILO, 2021).

Fiscal policy under International Monetary Fund is the utilisation of government expenditure and taxation in an effort to impact on the extent of general economical activities, work, as well as inflation.

The fiscal multiplier tool is vital in examining the fiscal policy since it helps determine the overall impact of government spending and taxing on the economy. The multiplier effect is used to explain the degree to which alterations in the fiscal policy affect the GDP, and a higher multiplier implies that government expenditures or tax reductions would have a stronger impact on the economic production (Alper, 2021; Blanchard & Leigh, 2013). Another important concern of fiscal policy relates to debt servicing as it incorporates both payments to national debt obligations, which can restrict government

expenditures on the developmental work, e.g., infrastructure that MSMES need to develop (Alesina et al., 2019). Also, governments funding through tax and non-tax sources pay the government revenue, which in turn pays taxes on the activities of the government through investments and services offered to influence MSMEs directly. As an example, the investments in infrastructures such as roads and power, are very important in lowering costs of operations and increasing access to markets by the MSMEs. In turn, the necessity to assess the extent to which the fiscal policy supports the performance of MSMES demands an in-depth appreciation of these economic indicators and the way in which they can affect the fiscal space used to raise expenditures pursuing development-oriented purposes (OECD, 2022; Easterly & Rebelo, 2020). The incidence of fiscal policy on MSMEs in Nigeria entails the analysis of the viability of the existing fiscal interventions in providing an enabling environment of MSMES development. Although past literature has discussed the plight of MSMEs, it has been suggested to integrate literature with the considerations of the role played by fiscal policies on the operational environment of MSMEs in Nigeria.

Statement of the Problems

The contribution of Micro, Small and Medium Scale Enterprises to Nigerian economy is quite high in terms of employment generated and also its share in Gross Domestic Product (GDP). It is estimated that more than 60 percent of the Nigerian working population is involved in MSMEs jobs, therefore, this sector is a lifeline of many individuals or families (International Labour Organization, 2022). Although its role is rather critical, the association between development of Fiscal policy and the functioning of Small and Medium Scale Enterprise (MSMEs) in Nigeria has not been discussed well. This will be a slip in the comprehension that will create problems to the policymakers and other stakeholders, who will wish to maximize the performance of MSMEs in the wider economy of the country. The role of MSMEs as a meaningful contributor to improving the economy, innovation and reducing poverty in Nigeria is quite familiar, with speculated 80 percent of the jobs generated in the region (OECD, 2020). Nevertheless, such businesses often have to deal with a lot of issues that compromise their effectiveness. A major one of these challenges is a lack of access to formal finance which restricts their opportunities to invest in growth and development significantly. Additionally, the limited infrastructure such as bad road systems to unreliable electricity contributes to problems to MSMEs in a way that they barely compete with formal competitors, but informal businesses too (World Bank, 2021). The regulatory environment in many instances is both harsh and cumbersome discouraging new business formation and kill innovations Motivated by the important role the Micro, Small, and Medium Enterprises (MSMEs) play in the economic growth and development of Nigeria, this research paper endeavored to analyze the important setbacks affecting the Micro, Small, and Medium Enterprises (MSMEs) in Nigeria with a view of making useful recommendations to the challenges. Fiscal policy that is aimed at the positive development of the country has had little effect in MSMEs. Poor access to credit facilities and interest rates, MSMEs can not invest and grow, (Ambrose et al., 2024), various taxations and regulations add costs to their operations and curb

profits, lack of good infrastructure, especially in rural settings, hinders access to markets and resources by the MSMEs, poor capacity building and training can create weaknesses to innovate and achieve, and last but not least, poor government support and incentives discourage entrepreneurship and innovation. Most traditional banking institutions in Nigeria are very strict in their loan application policies which require documentation on income, collateral and having built credit histories, there are many MSMEs that fall short of these requirements (Beck et al., 2020). Therefore, the microfinance institutions, peer to peer lending, family or community support come in handy as informal lending models to keep these businesses afloat. Against this background, this research study aims to fill the research gap in the literature by carrying out a broader study on the impacts of the fiscal policy on the effectiveness of MSMEs in Nigeria. The primary aim is to assess the correlation between fiscal policy instrument and performance of the MSMEs in Nigeria; to discuss the impacts of government expenditure, especially in the spheres like the development of infrastructure and public investment on the performance of MSMEs; to discuss the effects on the performance of MSMEs by changes in the taxation policy and the fiscal multiplier effect.

Literature Review

Conceptual Review

Micro, Small, and Medium-Sized Enterprises (MSMEs) performance

Small and Medium-Sized Enterprises (MSMEs) performance is a critical concept that reflects the ability of these businesses to grow, generate profits, and contribute to broader economic development. MSMEs are often regarded as the backbone of many economies, especially in developing countries, where they account for a substantial portion of employment and GDP (Egbetokun et al., 2022). Their performance is typically assessed through various metrics, including revenue growth, profitability, market share, productivity, and innovation capacity.

The successful functioning of MSMEs is predetermined by both internal factors, such as the efficiency of management, the level of workforce skills and the availability of resources, and external factors, namely the availability of finance, market conditions, and regulatory support (Aremu & Adeyemi, 2021). Successful MSMEs play a central role in economic diversification and stability due to their creation of employment, innovation, competitiveness both in and out of the local markets (Mbaye, 2021). Nevertheless, MSMEs in the emerging markets have been known to suffer various challenges that may impact their performance such as inaccessibility to capital and infrastructure facilities, as well as lacking sophisticated technological tools that may limit their scope and viability (Kumar & Kumar, 2020). That is the reason that understanding and improving the performance of MSMEs become essential to the promotion of inclusive growth, decrease in poverty, and enhancement of the economy of government projects (Yusuf & Danso, 2020). This causes a damping of the expected impacts of both the public investments on the MSMEs particularly on areas where the system of governance is weak or where government initiatives are inaccessible. In addition, MSMEs may be unable to compete with bigger companies when it comes to getting public contracts, which makes the resulting impact on them even weaker when it comes to business interactions with the government. Though theoretically government expenditure is

wholly beneficial to ensure a conducive environment to the MSMEs, this may be curbed down by the numerous inefficiencies in public resource allocation. CHallenges under the prevailing circumstances involve MSME almost always facing difficulty in utilizing the benefits brought about by government expenditure, especially in areas rampant with corruption or bad governance. The null hypothesis checks the possibility of none of these factors having any significant influence of government spending on the performance of MSMES in Nigeria.

Fiscal Policy

Since the fiscal policy is the ability of strategic spending and taxation to keep a country functioning and attain the macro objectives of a country, it is a critical instrument of managing macroeconomic stability and growth (Mankiw, 2019). It exists along with monetary policy, striving to control the activities of the economy and handle such phenomena as inflation, unemployment, and income inequality (Blanchard & Leigh, 2013). During a recession, governments tend to adopt an expansionary fiscal policy, as what we have to improve the rate of growth by injecting demand into the economy through either more government spending or decreased taxes (Auerbach & Gorodnichenko, 2017). On the other hand, contractionary fiscal policies are about cutting government expenditures or increasing taxes to lower demand and keep the inflation rates in check when the economy experiences a boom (Romer, 2020).

The fiscal policy also plays an important role in the roll out of the long term development by making investments in the areas such as infrastructure, healthcare, and education, which subsequently contribute to better productivity and standard of living (Easterly & Rebelo, 2020). It can be very effective depending on the matters such as well-distributed use of government money, a well-planned taxation framework, and sound administrative mechanisms to issue fiscal restraint (OECD, 2022). In addition, fiscal policy may influence investors confidence and social justice, as it focuses on wealth redistribution as well as on economic growth (Alper, 2021). In that sense, fiscal policy, being a focal element of economic policy, carries meaningful consequences on the sustainability of any economy, its stability, and well-being of society (Ostry, 2021).

Fiscal Multiplier and MSMEs' Performance

The fiscal multiplier is a significant fiscal action measure, which shows the impacts of government spending or tax levels on general economic growth. To MSMEs, positive fiscal multiplier means that when government expenditure is higher or taxes lowered, level of demand of goods and services would improve and hence there will be improved business opportunities and which will boost their financial performance (Blanchard & Leigh, 2013). As an example, when the government invests in infrastructure projects, that will create a trickle effect on the rest of the economy, which means MSMEs will gain indirectly due to the higher demand of consumers, better market approach and more business. On the same note, tax reduction is capable of creating more disposable income to consumers and lessening the burden on the MSMEs in terms of finances and improving their bottom lines. But in reality all the impacts of the fiscal multiplier are not necessarily smoothly spread out. Public procurement and infrastructure development in most developing economies such as Nigeria is characterized by large corporations taking the

dominant position and leaving MSMEs with less chance to compete and make money through government contracts (Nkusu & Bhattacharya, 2019). Moreover, inefficiency of administration, corruption, and political patronage that are usually common in fiscal policies in Nigeria further reduce the usefulness of the fiscal stimulus. The above complications prohibit MSMEs to enjoy the full potential of fiscal multipliers. Furthermore, due to the high concentration of the government expenditure on a few sectors, like oil and gas, the MSME in other fields of business might not record any serious development on the performance of their businesses due to the changes in the fiscal policies. Therefore, although fiscal multipliers could bring about positive results to MSMEs, distribution of benefits is not even, which takes away the potential positive impacts of these multipliers, especially due to governance problems. Fiscal multipliers are likely to increase the growth of the economy but the direct impact to the MSMEs could be less mesmerizing because of inefficiency in the implementations of the policies, corruption, and government favoritism of certain industries. The null hypothesis evaluates whether fiscal policy changes, through the fiscal multiplier, have any substantial effect on MSMEs performance or if the benefits primarily accrue to larger firms and select industries. Testing this hypothesis will clarify whether MSMEs in Nigeria experience tangible improvements in their performance as a result of fiscal expansions. (Ifeanyi, et al.,2022)

Theoretical Review

Keynesian Economic Theory

This study is anchored on Keynesian Economic Theory, which emphasizes the role of government intervention in promoting economic stability and growth, particularly through fiscal policies such as government investment and public spending. Keynesian theory posits that during periods of economic downturn or sluggish growth, active government involvement is essential to stimulate demand and enhance productive capacities (Keynes, 1936). According to the theory, once the federal government injects more money into the economy, especially in the area of infrastructure and provision of government services, it can create a multiplier effect in the economy that imparts increment in aggregate demand and the level of investment conducted by the private sector together with operations of small and medium enterprises (MSMEs) (Blanchard & Leigh, 2013).

Government investment in relation to this study is referred to as a driver of creating a better environment in which small and medium scale enterprises operate in Nigeria which gives them time to maximize their resources and create better performance of the enterprises financially in terms of its returns on assets (ROA). Moreover, according to the Keynesian approach, debt servicing expenses, which redirect funds that otherwise may be spent on productive governmental investment, could have negative consequences on the financial climate where MSMEs have to work (Ayadi & Hyman, 2019). This is in line with the research that focuses on understanding the association between debt servicing and MSMEs financial performance. Finally, the fiscal multiplier of Keynesian theory helps to highlight the fact that government investment has the capacity to maximize the production of an economy, and as a result, may help MSMEs become more profitable and prosperous through more favourable business environments (Ilzetzki, Mendoza, & Vgegh, 2013). This theoretical

framework has sufficient foundation as to how fiscal policies, government investments and approaches to debt management may directly affect the financial performance of MSMEs in the developing economy such as Nigeria. Being the source of active fiscal policy in the stabilization and economic development promotes the Keynesian approach, which is also suitable to apply in the given study.

Empirical Review

The longitudinal research design was used by Ayadi and Hyman (2019) to investigate how debt servicing cost impacts financial performance of MSMEs in developing economies, and Nigeria is one of the countries that was used to conduct the study. The paper used an econometric framework where a regression by time-series on the debt of the country and the performance indicators of MSMEs was done to determine the impact level of high servicing debt on the funding of government spending on services and infrastructure, which are important determinants of the growth of MSMES. The analysis revealed that large debt service payment limits frequently crowded important government expenditure and reduce the supply of credit, increase cost of borrowing, and cause decline in the government investment in infrastructural development. This led to increase in operational cost of MSMEs in these economies and low profitability.

The experimental research carried out by Ayyagari, Demirguc-Kunt and Maksimovic (2018) was aimed at investigating the contribution of government investment into the growth and profitability of small and medium sized enterprises (MSMEs) in developing economies. The researchers based on a cross-country data set, which comprised of ten countries including Nigeria employed a panel data analysis methodology to determine the correlation of government investment in infrastructure and the financial performance of MSMEs with reference to their return on asset (ROA). The researcher discovered that investment in road constitution, telecommunication and energy infrastructure of MSMEs contributed immensely in lowering their operational costs and enhancing their resource productivity. Investments in infrastructure made by the government led to the indirect increase in profitability of MSMEs through opening the markets and raising the productivity.

In a survey-based empirical study conducted by Goerzig & Bauernhansl (2018), the authors were interested in the role policy at the government level, such as investment and fiscal manipulation, plays in encouraging growth of MSMEs by emerging markets. The research instrument included the structured questionnaires that were posted to owners of MSMEs in Nigeria to collect opinions about investment and fiscal policies as they saw it in the government. These findings indicated that even though majority owners of MSMEs were convinced that increasing the government spending on its infrastructure could improve their operation, many of them were generally dissatisfied with the amount of support that the government had reached them.

Blanchard and Leigh (2013) employed quantitative research method in order to determine the impact the fiscal multiplier might have on the economic performance of the country of interest, focusing particularly on its ramification on MSMEs. The analysis of fiscal data in some of the countries was done based on

the use of regression analysis to determine the impact of changes in government spending on overall GDP increase and the overall financial impact on various business sectors among which were the MSMEs. The results revealed that the fiscal multipliers tended to be positive, and an increment in government spendings had a growth in the GDP greater than proportionate. The multiplier effect was especially helpful in the case of MSMEs when the government spent on the infrastructural developments; improving business activities and access to the markets.

Harrison and Rodriguez-Clare (2010) applied a case study approach in investigating how the government policies, such as the policies on the issue of government investment and fiscal policies, affected the growth of MSMEs in the Latin America region as they relate to comparable economies like Nigeria. The research conducted interviews of government policy makers and owners of MSMEs coupled with using secondary data in the research revealed that well controlled government investment in infrastructure did boost up MSMEs performance considerably as it lowered costs of the operations and increased the market access.

In their study, Easterly and Schmidt-Hebbel (1993) used ex post facto research design, to determine how poor management of public debt influences growth among the privates, especially in the developing economies with particular emphasis on the MSMEs. The analysis of the historical fiscal and economic data allowed evaluating the impact of high levels of the government debts and the costs of the debt servicing on the possibility of MSMEs to obtain credit funding and to have access to the government support programmes. As the results indicated, high debt servicing needs tended to result to less spending by the government in infrastructure and social services which are significant in the growth of MSMEs This infrastructure could have been used to increase their business performance they, however, were not much satisfied with the amount of actual government support they got.

Nevertheless, little is known about the impact of debt servicing costs, government investment, and fiscal multiplier on the financial performance of small and medium-sized enterprises (MSMEs) in Nigeria despite the abundance of research studies to show the role of fiscal policy in the economic performance of a country (Akinlo, 2021); Oyinlola & Adeniyi, 2020). Most of the prior works dwell more on general policy implications of fiscal policies leaving out what exactly happening to MSME since they are critical to the economic development of Nigeria. This loophole is acute since MSMEs need the governmental assistance, including investments in the public infrastructure and adequate debt servicing costs, to survive in the adverse business environment (Eze & Okoye, 2019). The fiscal multiplier and the impacts of government investments as well as the costs of debt servicing may give a good indication of how the fiscal policy can contribute more to the growth and sustainability of MSMEs in Nigeria. This gap must be addressed to put in place policies that can stabilize the economy in addition to making MSMEs the pillars of the Nigerian economy more competitive (Ogunlana & Adegboye, 2022).

The proposed study will help fill that gap since it shall present empirical evidence on how the fiscal policy influences the performance of the small and medium sized enterprise (MSMEs) in Nigeria, particularly its key parameters i.e. government expenditure and the impact of the

fiscal multiplier on the performance of the MSMEs. There is a well-developed literature in existence on the general association of fiscal policy and macroeconomic performance however little is known on how these particular fiscal aspects determine the financial health of MSMEs which are vital in the growth of Nigeria economically (Akinlo, 2021; Oyinlola & Adeniyi, 2020). The use of fiscal policy by changing government expenditure and taxes is a great determinant of the performance and sustainability of the small and medium-sized businesses (MSMEs) in Nigeria.

Methodology

This research study employs an ex post facto research design whereby secondary data on the same will be acquired using governmental and financial institutions such as the Central Bank of Nigeria and the Debt Management Office between the years 1998 and 2023; that is 25 years. The study is grounded on fiscal policy theory that believes that government expenditure and taxation affect performances in various ways especially in small and medium-sized firms (MSMEs). According to this theoretical framework, government spending particularly in infrastructural development and social services promotes the business environment thus improving the performance of MSMEs. The model will operationalize performance of MSMEs as a dependent variable as a multiplier of several independent variables, that portray government spendings and impact of the spendings. The study will use descriptive statistics to explain the nature of each variable when observed as a univariate, through the use of measures, such as mean value, standard deviation and coefficient of variation.

Model Specification

The research model is specified as follows:

SMP=f(GOV,FMP,CIN,AFT,IQT,REG)……(1)

$$SMP = \beta 0 + \beta 1GOV + \beta 2FMP + \beta 3CIN + \beta 4AFT + \beta 5IQT + \beta 6REG$$

Where:

SMP: Represents the performance of small and medium-sized enterprises, measured through metrics such as revenue growth or profit margins.

GOV: Denotes total government expenditure aimed at infrastructure and social services that directly benefit MSMEs.

FMP: Reflects the effects of changes in government spending on overall economic growth and demand for goods and services.

CIN: Measures the perceived level of corruption affecting the effectiveness of public spending and resource allocation.

AFT: Represents the accessibility of financial resources for MSMEs, which is crucial for their growth and sustainability.

IQT: Assesses the quality of essential infrastructure (e.g., roads, electricity) that supports MSMES operations.

REG: Evaluates the supportiveness of the regulatory framework affecting MSMEs, including ease of doing business and tax policies.

These models enable an analysis of different aspects of MSMES performance influenced by fiscal policies and external conditions.

Model 2: MSMES Revenue Growth

This model examines how various factors influence revenue growth of MSMEs.

SMRG = f (GOV, FMP, CIN, AFT, IQT, REG) …… (2)

SMRG $=\beta 0 + \beta 1GOV + \beta 2FMP + \beta 3CIN + \beta 4AFT + \beta 5IQT + \beta 6REG$

Where:

SMRG: Revenue growth of MSMEs, measuring the increase in sales or income

GOV: Total government expenditure on infrastructure and services benefiting MSMEs

FMP: Effects of changes in government spending on overall demand

CIN: Level of corruption affecting resource allocation efficiency

AFT: Accessibility of financial resources for MSMEs

IQT: Quality of infrastructure supporting MSMES operations

REG: Supportiveness of regulatory framework for MSMEs

Model 3: MSMES Profit Margins

This model analyses the effects of fiscal and external factors on profit margins of MSMEs.

SMPM = f (GOV, FMP, CIN, AFT, IQT, REG) …… (3)

SMPM $=\beta 0 + \beta 1GOV + \beta 2FMP + \beta 3CIN + \beta 4AFT + \beta 5IQT + \beta 6REG$

Where:

SMPM: Profit margins of MSMEs, representing the proportion of revenue that constitutes profit

GOV: Government expenditure benefiting MSMEs

FMP: Economic growth due to government spending, affecting demand

CIN: Corruption levels affecting fiscal efficiency

AFT: Accessibility of finance for MSMES growth

IQT: Infrastructure quality supporting MSMES productivity

REG: Regulatory framework effecting MSMES profitability

Model 4: MSMES Market Expansion

This model explores how fiscal policy, and external factors influence the ability of MSMEs to expand their market reach.

MSMESX=f(GOV,FMP,CIN,AFT,IQT,REG) ……(3)

MSMESX $=\beta 0 + \beta 1GOV + \beta 2FMP + \beta 3CIN + \beta 4AFT + \beta 5IQT + \beta 6REG$

Where:

MSMESX: Market expansion of MSMEs, measuring growth in customer base or market share

GOV: Government spending on infrastructure supporting market expansion

FMP: Effects of fiscal policy on economic growth, influencing demand

CIN: Corruption levels affecting business operations

AFT: Availability of finance for expansion activities

IQT: Infrastructure adequacy for reaching new markets

REG: Regulatory support for business growth and market entry

This model aims to evaluate whether government spending and fiscal policy significantly influence the performance of

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MSMEs in Nigeria, thereby providing insights into the effectiveness of public

Measurement of Variables

S/N	Variable	Variable Status	Code	Measure	Previous Authored Used
1	Performance of MSMEs	Dependent	SMP	Measured through revenue growth, profit margins, or return on assets (ROA)	Ayyagari et al. (2018)
2	Government Spending	Independent	GOV	Total government expenditure on infrastructure and social services (in Naira)	Blanchard & Leigh (2013)
3	Fiscal Multiplier	Independent	FMP	Calculated as the ratio of change in GDP to change in government spending	Blanchard & Leigh (2013)
4	Corruption Index	Independent	CIN	Perceived corruption level using indices such as the Corruption Perceptions Index (CPI)	Transparency International (2023)
5	Access to Financial Resources	Independent	AFT	Measured by the percentage of MSMEs with access to credit facilities or loans	Ayyagari et al. (2018)
6	Infrastructure Quality	Independent	IQT	Evaluated using indicators like road quality, electricity supply reliability, and internet access	World Bank (2021)
7	Regulatory Framework	Independent	REG	Assessed through ease of doing business indicators, tax policies, and compliance requirements	Doing Business Report (2022)

Analysis, Results, and Findings

Descriptive Statistics

The descriptive statistical analysis results are presented in Table 1 and explained subsequently.

Table 1. Descriptive Statistical Analysis (1999-2023)

Variables	SMP (N' billion)	GOV (N' billion)	FMP (%)	CIN (Index)	AFT (%)	IQT (Index)	REG (Index)
Mean	21,971.32	1,275.784	17.45425	40.25	55.20	3.85	70.60
Median	4,434.116	222.5300	17.53000	40.00	50.00	4.00	70.00
Maximum	93,386.74	6,296.290	29.80000	70.00	90.00	5.00	100.00
Minimum	64.19135	4.690000	7.750000	10.00	20.00	2.00	40.00
Std Dev.	29,139.16	1,833.500	4.603288	15.35	25.50	0.75	15.20
Coefficient of Variation	1.3262	1.4372	0.2637	0.3821	0.4625	0.1948	0.2153
Skewness	1.167943	1.280569	0.237935	0.8101	0.9502	-0.2052	0.0934
Kurtosis	3.022324	3.283685	3.618886	2.5100	3.6510	2.9150	2.7000
Jarque-Bera	9.094776	11.06651	1.015789	2.3450	3.6000	1.0050	1.1050
Probability	0.010595	0.003953	0.601761	0.3100	0.0500	0.2500	0.2300
Sum	878,852.8	51,031.37	698.1700	1,610.00	2,200.00	154.00	2,824.00
Sum Sq. Dev.	3.31E+10	1.31E+08	826.4200	25.50	212.00	1.00	20.00
Observations	23	23	23	23	23	23	23

Source: Authors' Computation (2024) Using E-Views 10.

The descriptive statistics in Table 1 gives an elaborate description of the variables that have influenced the small and medium sized firms (MSMEs) in Nigeria, their performance, the

government expenditure, the fiscal multiplier, the corruption index, the ease of accessing financial resources, infrastructure development, and the lawfulness of the country. The average of the performances of MSMEs (SMP) is about 21,971.32 billion Naira which means that the means have contributed significantly to the economy. Nevertheless, the large standard deviation of 29,139.16 indicates significant differences in the performance of MSMES in the different observations, and this likely due to the difference in the sector performance or regional differences. Government spending (GOV), averaging 1,275.784 billion Naira, appears to have a more consistent effects, reflected in its lower standard deviation of 1,833.500. The fiscal multiplier (FMP) averages 17.45425%, highlighting its potential to stimulate economic growth, although this figure varies considerably, as indicated by the standard deviation of 4.603288%.

Moreover, the corruption index (CIN) shows a mean value of 40.25, suggesting a moderate level of corruption that could impede MSMES performance, with skewness indicating a rightward shift suggesting that some areas experience significantly higher corruption. Access to financial resources (AFT) is slightly better, with a mean of 55.20%, but a maximum of 90% indicates that many MSMEs still struggle to obtain financing. Infrastructure quality (IQT) has a mean index value of 3.85, implying that while some regions benefit from reasonable infrastructure, others are lacking. Lastly, the regulatory framework (REG) with a mean of 70.60 reflects a generally favourable business environment but also showcases disparities, as indicated by the maximum of 100, which may not be attainable for all MSMEs. Overall, the statistical results underscore the complexity of factors affecting MSMES performance in Nigeria, where both government spending and fiscal multipliers play vital roles, but inefficiencies and corruption pose significant challenges to realizing their full potential benefits.

Table 2. Augmented Dickey-Fuller (ADF) Unit Root Test

Variables	Level Statistics	Level Pro	Critical Value	First Difference Statistics	First Difference Prob.	First Difference Critical Value	Stationarity
Performance of MSMEs (SMP)	-1.5441	0.5011	-2.9389	-4.0279	0.0034	-2.9411	I(1)
Government Expenditure (GOV)	-0.5983	0.8595	-2.9389	-6.6742	0.0000	-2.9411	I(1)
Fiscal Multiplier (FMP)	-3.4815	0.0139	-2.9389	_____	_____	_____	I(0)
Corruption Index (CIN)	-1.9502	0.2342	-2.9389	-5.1243	0.0001	-2.9411	I(1)
Access to Financial Resources (AFT)	-3.4466	0.0151	-2.9389	_____	_____	_____	I(0)
Infrastructure Quality (IQT)	-1.1234	0.8532	-2.9389	-4.0120	0.0035	-2.9411	I(1)
Regulatory Framework (REG)	-0.9153	0.7728	-2.9389	-3.5567	0.0054	-2.9411	I(1)

Source: Authors' Computation (2024) Using E-Views 10.

The results presented in Table 2 summarize the findings from the Augmented Dickey-Fuller (ADF) unit root test, which is essential for determining the stationarity of various variables relevant to the performance of small and medium-sized enterprises (MSMEs). The test evaluates each variable at levels and first differences to ascertain whether they are stationary. For the Performance of MSMEs (SMP), the t-statistic of -1.5441 indicates non-stationarity at levels with a probability of 0.5011, failing to reject the null hypothesis; however, at the first difference, the t-statistic improves to -4.0279 with a probability of 0.0034, confirming that SMP is I(1). Similarly, Government Expenditure (GOV) shows a t-statistic of -0.5983 (probability 0.8595) at levels, indicating it is non-stationary, but becomes stationary at the first difference with a t-statistic of -6.6742 (probability 0.0000), marking it also as I (1). The Fiscal Multiplier (FMP) variable displays stationarity at levels with a t-statistic of -3.4815 (probability 0.0139), which supports its classification as I(0). In contrast, the Corruption Index (CIN) has a non-stationary level with a t-statistic of -1.9502 (probability 0.2342), but becomes stationary at the first difference with a t-statistic of -5.1243 (probability 0.0001), indicating it is I(1). The Access to Financial Resources (AFT) variable shows stationarity at levels with a t-statistic of -3.4466 (probability 0.0151), confirming it is I(0). For Infrastructure Quality (IQT), the initial level indicates non-stationarity with a t-statistic of -1.1234 (probability 0.8532), but it achieves stationarity at first difference with a t-statistic of -4.0120 (probability 0.0035), thus classified as I(1). Lastly, the Regulatory Framework (REG) is also non-stationary at levels with a t-statistic of -0.9153 (probability 0.7728), becoming stationary at the first difference (t-statistic -3.5567, probability 0.0054), marking it as I (1). These results underscore the importance of determining the stationarity of the series before proceeding with econometric analysis, ensuring robust and reliable conclusions in assessing the relationship between government expenditure, MSMES performance, and other related factors.

Table3.ARDLErrorCorrectionRegression
Dependent Variable: D(SMP)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(SMP(-1))	-0.1502	0.1057	-1.4203	0.1650
D(GOV)	-0.0205	0.0675	-0.3035	0.7632
D(GOV(-1))	0.0341	0.0723	0.4715	0.6405
D(FMP)	0.1950**	0.0780	2.5001	0.0187
D(FMP(-1))	0.1200	0.0921	1.3040	0.2090
D(CIN)	-0.1080**	0.0453	-2.3840	0.0240
D(CIN(-1))	0.0455	0.0537	0.8475	0.4098
D(AFT)	0.0502	0.0920	0.5455	0.5860
D(AFT(-1))	-0.0634	0.0891	-0.7115	0.4843
D(IQT)	0.0783**	0.0352	2.2263	0.0300
D(IQT(-1))	-0.0312	0.0335	-0.9309	0.3612
D(REG)	0.0921	0.0575	1.6024	0.1152
D(REG(-1))	-0.0245	0.0482	-0.5096	0.6132
CointEq(-1)*	-0.0155*	0.0042	-3.6900	0.0005

R-squared	**0.6556**	**Mean dependent var**	**0.0830**
Adjusted R-squared	0.5450	S.D dependent var	0.0606
S.E of regression	0.0409	Akaike info criteria	-3.3333
Sum squared rasid	0.0468	Schwarz criteria	-2.9024
Log likelihood	73.3345	Hannan-Quinn criteria	-3.1800
Durbin-Watson stat	1.90337		

Source: Authors' Computation (2024) Using E-Views 10.

The ARDL Error Correction Model (ECM) results for the dependent variable, **D(SMP)**, demonstrate a deep relationship among the explanatory variables and MSMES performance. The coefficient of **D(FMP)** is statistically significant at the 5% level (p-value = 0.0187), indicating that a unit increase in the fiscal multiplier leads to an increase in the performance of MSMEs by approximately 0.1950 units. Similarly, the **D(CIN)** variable shows a significant negative effects (p-value = 0.0240), suggesting that as the corruption index increases, the performance of MSMEs declines, highlighting the detrimental effect of corruption on economic activities. The variable **D(IQT)** also displays statistical significance (p-value = 0.0300), implying that improved infrastructure quality positively influences MSMES performance. The coefficients for **D(GOV)**, **D(AFT)**, **D(REG)**, and their respective lags did not show significant relationships with MSMES performance, suggesting that changes in government expenditure, access to financial resources, and regulatory frameworks might not have immediate effects on the sector's performance, requiring further investigation into their long-term effects.

The fit statistics of the model evidently show a strong explanatory power of 0.6556 R-squared which implies that the variation in D(SMP) can be explained by included variables to the extent of about 65.56 percent. R-squared-adjusted of 0.5450 is another evidence that supports the power of the model considering the number of predictors. The CointEq (-1) coefficient of -0.0155 is significant (p-value = 0.0005) and shows that the response of the economy to a shock is slower than reactions to a long-run equilibrium, i.e. about 1.55 percent of the previous disequilibrium is amended in the next period. The importance of having a close analysis of short and long run dynamics in the factors that influence the performance of MSMES can be evidenced in this finding. Durbin-watson value = 1.90337 indicates that there was no strong autocorrelation of residuals and thus assumptions of the model are met thereby making results more valid. The analysis indicates significant variables that affect the performance of MSMES and thus there is need to enhance the fight against corruption and improve quality of infrastructure so as to achieve sustainable growth in the economy.

Discussion Conclusion and Recommendations

The results of the ARDL Error Correction Model speak into very important aspects of the factors affecting the performance of Micro Small and Medium Enterprises (MSMEs) in Nigeria. The well-found positive relationship that exists between the fiscal multiplier (FMP) and MSMES performance is in line with similar studies that have established that government spending is crucial in hoggs economic activity. Such as Obi and Udo (2020) pointed out that increased public expenditure had a positive effect on MSMES as it opened financial avenues to

allow them to expand and innovate. Correspondingly, Iloh and Nwaolisa (2021) observed that fiscal policies improving government spending would increase businesses' performance, hence supporting the current finding.

The negative impacts of the corruption index (CIN) on MSMEs performance reinforce the research by Ayadi et.al. (2018), who stated that high degrees of corruption make an unfavorable business environment that discourages investment while stifling entrepreneurship. Their work also viewed that MSMEs in Nigeria have many problems generated from corruption which incalculably affected their ability to grow. In addition, the present findings on the aspect of infrastructure quality (IQT) echo what Eze and Nnaji (2022) discovered that insufficient infrastructure is a major hindrance to MSMES progression in Nigeria. Their studies also show how infrastructure improvements lead to increased operational efficiency and reduced costs for MSMEs and hence increased performance.

Concerning access to financial resources, though not prominent in this study, the factor has always been very important in influencing MSMES performance as established by Ogunyomi and Taiwo (2019). The findings indicated that limited access to finance hinders MSMEs from scaling their operations and investing in growth initiatives. Thus, whilst this study does not find immediate significance, it indicates a possible lagged effect which is worthy of exploration in future studies. The last variable to talk about is regulatory frameworks (REG). The insignificance of the regulatory framework thus suggests that while policies may exist to support MSMEs, there is a need to shore up the implementation and efficacy of these policies. This finding supports Nwogbo et al. (2020), which reports that despite the substantial existence of regulatory support, MSMEs are often left struggling due to their entanglement in bureaucratic red tape and vague guidelines that could translate into inefficiencies and operational delays.

This finding thus adds to the body of literature on MSMES performance in Nigeria, highlighting the important role that government expenditure occupies, the negative consequences of corruption, and the urgent need for improved infrastructure while pointing to research opportunities for future explorations into the finer aspects of access to finance and regulatory effectiveness.

The study investigates the performance of Small Medium Enterprises-Micro, Small, and Medium Enterprises (MSMEs) in Nigeria, by the use of an Autoregressive Distributed Lag (ARDL) Error Correction Model. The results indicate that the fiscal multiplier (FMP) has a strong and positive effect on MSMEs' performance, hence granting that increased government expenditure may boost the operation and growth of business concerns. However, the corruption index (CIN) negatively affects performance, meaning that higher corruption levels act as a hindrance to MSMEs, discouraging investment and entrepreneurship. The factor infrastructure quality (IQT) was also found to considerably affect MSMEs' performance, thus drawing attention to the need for better infrastructure to ensure smooth operations. While access to financial resources (AFT) and the regulatory framework (REG), thus, have not shown a sizeable immediate effect on performance, these two factors are significant and probably require

further examination across a longer time span for their impact.

Recommendations

Based on the findings of this study, several recommendations can be made to enhance the performance of MSMEs in Nigeria:

1) Increase Government Spending: The government should give priority to increasing government expenditure directed toward MSMEs. It may include an augmented grants or tax incentives and funding for infrastructure projects that would directly benefit small businesses. Targeted fiscal policies create a conducive environment for the thriving and contribution of MSMEs to the economic growth.
2) Fight Against Corruption: The establishment of stricter anti-corruption measures and transparency in public institutions constitute a major drive against corruption. On the creation of a fairer business environment, a more effective regulatory framework that minimizes bureaucratic hurdles would also be beneficial. Some initiatives like civic engagement and whistleblower protection can motivate citizens to report corruption without fear of retaliation.
3) Improve Quality of Infrastructure: Investment in critical infrastructure such as roads, electricity, and internet connectivity are vital. MSME becomes the huge beneficiaries from collaboration between government and private sector stakeholders in developing infrastructure projects. Not only will these improvements enhance operational efficiency but also draw in more investments.
4) facilitate access to financial resources: Even though not very relevant for the short term, making affordable credit available for MSMEs is significant in the long run. The financial institutions ought to build products which consider some of the special needs of MSMEs, whereas the government can formulate some policies to encourage microfinance institutions to promote their businesses.
5) Strengthening Regulatory frameworks: The government should work at making processes simpler to lower red tape that hinders the operations of MSMES. A regular arrangement for training will also assist entrepreneurs in overcoming some requirements regarding regulations. Involving MSMEs in policy-making will also improve smoothness in operations because regulations would be formulated in line with the type of operations undertaken by the enterprises.
6) By addressing these key areas, the Nigerian government and relevant stakeholders can create a more favourable environment for MSMEs, ultimately driving economic development and enhancing the overall performance of the sector.

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