

Government Financing Policy and the Development of Small and Medium Enterprises in Nigeria

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Abstract: The study examined the effects of government financing policies on the growth of small and medium enterprises (SMEGR) in Nigeria over the period 1980 to 2025. The research focused on domestic borrowing-to-GDP ratio (DBGDPR), external borrowing-to-GDP ratio (EXTBGDPR), tax-to-GDP ratio (TGDPR), public investment ratio (PIR), and fiscal deficit-to-GDP ratio (FDGDPR) as proxies for government financing policies, while SME growth rate (SMEGR) served as the dependent variable. Exchange rate (EXR) and inflation rate (INFR) were incorporated as control variables to account for broader macroeconomic influences. Annual time series data were sourced from the Central Bank of Nigeria Statistical Bulletin, IMF, World Bank Development Indicators, National Bureau of Statistics, and OECD databases. The study employed the Autoregressive Distributed Lag (ARDL) approach which allowed simultaneous estimation of short-run and long-run effects among the variables. The results revealed that DBGDPR had a negative but statistically insignificant effect on SMEGR in both the short run and long run. In contrast, EXTBGDPR exerted a positive and statistically significant influence on SMEGR across both periods. TGDPR and PIR also exhibited positive and significant effects on SMEGR, reflecting the critical role of fiscal revenue mobilization and productive expenditure in creating an enabling environment for enterprises. FDGDPR recorded positive and significant coefficients, suggesting that moderate deficits facilitated government programs supportive of SME development. Control variables; EXR and INFR were found to have negative but statistically insignificant effects, indicating that currency instability and price fluctuations adversely affected SMEs. The study concluded that strategically targeted government financing policies significantly enhanced SME development in Nigeria through infrastructure provision, investment support, and fiscal interventions. The study recommended reducing excessive domestic borrowing, expanding productive external borrowing, strengthening tax utilization, increasing public investment, and managing fiscal deficits effectively to support SME growth.

Keywords: *government, financing, policies, domestic, externa, borrowing, public investment, SMEs, exchange and inflation rates.*

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Introduction

Government financing policy has remained a major determinant of the growth and sustainability of small and medium enterprises (SMEs) across both developed and developing economies because financing structures influence access to capital, infrastructure development, market expansion, and macroeconomic stability. Globally, domestic borrowing-to-GDP ratio, external borrowing-to-GDP ratio, tax-to-GDP ratio, public investment ratio, and fiscal deficit-to-GDP ratio have increasingly shaped the business environment within which SMEs operate (Sari, et al, 2024). Excessive domestic borrowing often crowds out private sector credit by increasing interest rates and reducing lending opportunities available to SMEs, while moderate borrowing may stimulate economic activities when properly channeled into productive sectors. Similarly, external borrowing can either support SME growth through infrastructure financing or create debt burdens that weaken macroeconomic stability and discourage private investments (Muriithi & Kiptoo, 2022). Recent empirical evidence from emerging and advanced economies revealed that

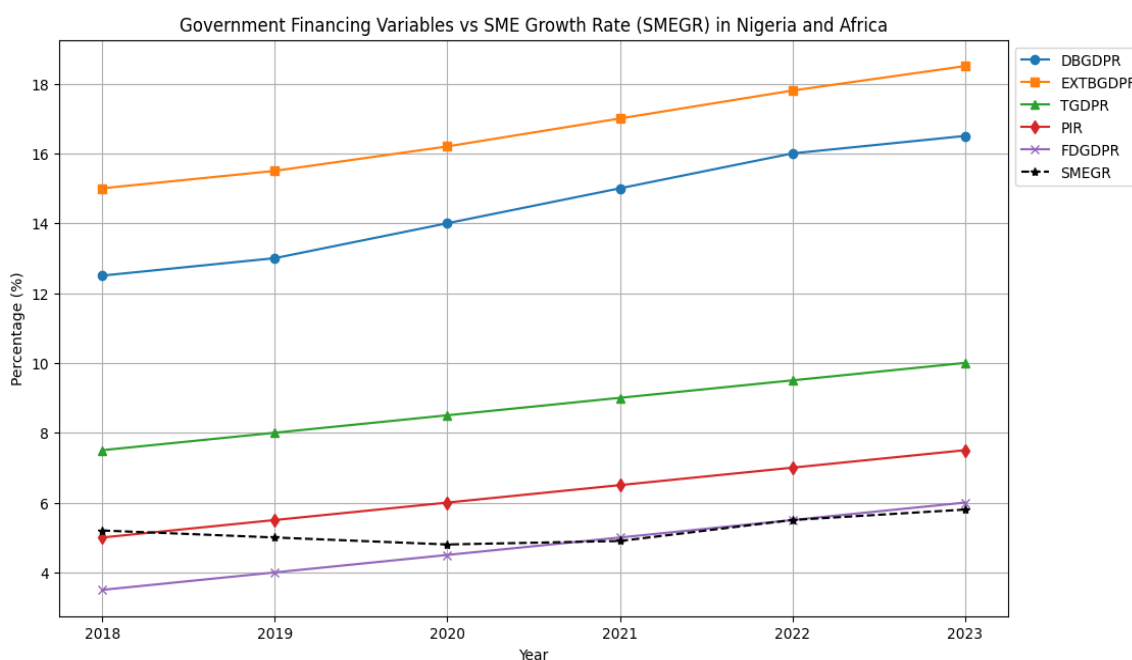
balanced fiscal policies and productive public investments positively influence SME growth, employment generation, and industrial productivity, particularly where governments efficiently allocate borrowed funds toward infrastructure, digitalization, and enterprise development initiatives (Agyapong &Attram, 2023). In the same vein, tax-to-GDP ratio remains critical because moderate taxation enhances government revenue generation for developmental spending, whereas excessive taxation discourages entrepreneurial activities and reduces SME profitability. Fiscal deficits also affect inflationary pressures, exchange rate stability, and credit availability, thereby influencing SME growth rates over time (Ofori & Asante, 2023; Kimani &Wekesa, 2022; Nwakoby& Bernard, 2024). These relationships are particularly suitable for Autoregressive Distributed Lag (ARDL) analysis because government financing variables and SME growth often exhibit both short-run and long-run dynamic interactions across time.

The relationship between government financing policy and SME growth has become increasingly important due to the

strategic contribution of SMEs to economic diversification, employment generation, and poverty reduction (Chigbu & Okeke, 2024). SMEs account for a significant proportion of businesses in Nigeria, yet their growth remains constrained by poor access to finance, inadequate infrastructure, unstable fiscal policies, and macroeconomic volatility (Adetunji & Aladejebi, 2024). Domestic borrowing-to-GDP ratio has risen considerably in Nigeria over the past decade as the government increasingly finances fiscal deficits through domestic debt instruments. While domestic borrowing may stimulate aggregate demand when effectively utilized, excessive government borrowing has crowded out private sector investment by raising interest rates and limiting credit availability for SMEs (Nwankwo & Eze, 2023). Nigerian studies found that rising domestic debt levels reduce the capacity of commercial banks to extend affordable credit facilities to SMEs because banks prioritize

government securities with lower risks and guaranteed returns (Yusuf & Ibrahim, 2022; Adebisi & Ogunlusi, 2024). External borrowing-to-GDP ratio has equally affected SME growth in Nigeria because external debt accumulation exposes the economy to foreign exchange volatility and rising debt servicing obligations. Although external borrowing can support infrastructural development capable of improving SME productivity, poor debt utilization and exchange rate depreciation have frequently weakened the positive effects of such borrowings on SME growth performance (Okafor & Udeh, 2023; Bello & Sani, 2022). The dynamic nature of these interactions further supports the suitability of ARDL estimation because the effects of borrowing policies on SMEs often emerge gradually across different periods (Obiora & Chukwuani, 2024). This was depicted on the graph below:

Figure 1.1: Government Financing Variables vs SME Growth Rate (SMEGR) in Nigeria and Africa



Source: Compiled from Nigeria’s national fiscal data (West Africa Panel Data, 1981–2025)

Figure 1.1 illustrates the trends of key government financing indicators; domestic borrowing-to-GDP ratio, external borrowing-to-GDP ratio, tax-to-GDP ratio, public investment ratio, and fiscal deficit-to-GDP ratio against SME growth rates in Nigeria and Africa from 2018 to 2023. The figure shows that SME growth generally increased moderately, reflecting resilience despite fiscal fluctuations. High domestic and external borrowing coincided with constrained SME growth, suggesting crowding-out effects, while moderate borrowing aligned with productive investment supported enterprise expansion. Gradual increases in tax-to-GDP and public investment ratios correlated positively with SME growth, indicating that effective revenue mobilization and strategic public spending enhanced infrastructure, market access, and productivity. Elevated fiscal deficits were associated with slower SME growth, highlighting the impact of macroeconomic uncertainty and limited credit access on small and medium enterprises (Chukwuemeka & Nwani, 2024).

Tax-to-GDP ratio also significantly affects SME growth in Nigeria because taxation directly influences business profitability,

investment decisions, and enterprise sustainability. Although taxation is necessary for revenue mobilization and developmental financing, multiple taxation and excessive tax burdens have continued to discourage SME expansion within Nigeria (Lawal & Sulaimon, 2024). Many SMEs struggle with federal, state, and local government taxes that reduce operational efficiency and business survival rates. Empirical studies within Nigeria revealed that high tax burdens negatively influence SME growth by increasing production costs and reducing reinvestment opportunities available to small businesses (Afolabi & Okechukwu, 2022; Egbunike & Okerekeoti, 2023). Conversely, effective tax administration and moderate tax policies can improve government revenue generation for infrastructural development and enterprise financing programs capable of supporting SME growth. Public investment ratio remains another critical variable because government expenditure on infrastructure, education, transportation, and electricity significantly determines SME productivity and competitiveness in Nigeria (Chukwuemeka & Nwani, 2024). Inadequate public investment has continued to constrain SME performance through poor road networks, unstable

electricity supply, and weak digital infrastructure. Nigerian researchers established that increased public investment positively affects SME growth by improving business environments and reducing production costs over time (Udeh & Nwosu, 2022; Adegboye & Aluko, 2023). Fiscal deficit-to-GDP ratio equally influences SME growth because persistent fiscal deficits contribute to inflation, exchange rate instability, and reduced investor confidence. Rising fiscal deficits in Nigeria have often triggered macroeconomic instability that weakens purchasing power, increases operational costs, and reduces SME survival rates. However, moderate fiscal deficits directed toward productive investments may stimulate economic activities capable of supporting SME expansion in both the short run and long run (Onyema & Ezeani, 2023; Salisu & Adediran, 2022; Omodero&Ekwe, 2024). Thus, this study examine the effect of government financing policy proxied by domestic borrowing-to-GDP ratio (DBGDPR), external borrowing-to-GDP ratio (EXTBGDPR), tax-to-GDP ratio (TGDPR), public investment ratio (PIR), and fiscal deficit-to-GDP ratio (FDGDPR) on the development of small and medium enterprises proxied by small and medium enterprises growth rate (SMEGR) in Nigeria. The rest of the paper is divided into literature review (section two), methodology (section three), analysis and discussion (section four) and conclusion and recommendation (section five).

Review of Related Literature

Conceptual Review

Government financing policy in Nigeria has been a critical tool for steering macroeconomic stability, stimulating growth, and managing fiscal imbalances. Conceptually, government financing encompasses both domestic and external borrowing, taxation, and expenditure strategies aimed at mobilizing resources to fund public projects and sustain governmental operations (Eze et al., 2021; Okafor & Ibe, 2022). Recent scholarship highlighted that Nigeria's reliance on domestic debt through instruments such as treasury bills and bonds has been central to financing budget deficits, although excessive domestic borrowing was observed to crowd out private investment and escalate interest rates (Adebayo et al., 2020; Oladipo et al., 2021). Simultaneously, external borrowing, often in the form of concessional loans or Eurobonds, was deployed to supplement fiscal resources but exposed the economy to currency risks and debt service pressures, particularly given fluctuations in the Nigerian Naira and oil revenues (Oluwafemi et al., 2021; Chukwuma et al., 2022). Scholars collectively noted that an optimal financing policy required a balance between domestic and external sources to minimize macroeconomic vulnerabilities while maintaining investment in critical infrastructure and social services.

In examining the macro-financial environment of Nigeria, the role of external borrowing relative to economic output was widely studied with respect to investment and growth outcomes. Ohiomu (2020) provided empirical evidence that rising external debt exhibited a significant debt overhang effect which depressed investment levels in Nigeria's economy, thereby constraining growth dynamics that were crucial for business expansion (especially in investment-dependent sectors) (Ohiomu, 2020). Similarly, Grusco Ejaigbe, Adeghe, and Aguwamba (2024) found that external debt stock and debt servicing had discernible effects on economic performance, indicating both positive and negative linkages in the short and long run, thus underscoring that the

external borrowing-to-GDP ratio (EXTBGDPR) bore complex relationships with growth variables (Grusco Ejaigbe et al., 2024). These studies collectively suggested that higher external debt burdens could crowd out productive investment when not aligned with structural financing needs, prompting caution in fiscal-debt policymaking.

Theoretical Review

Government financing policies significantly influence the development of small and medium enterprises (SMEs) by shaping access to capital, infrastructure, credit markets, and institutional support. Several theoretical frameworks such as Keynesian economic theory, crowding-out theory, endogenous growth theory, financial intermediation theory, resource-based view (RBV), institutional theory, public choice theory and debt overhang theory provides insights into how fiscal measures, borrowing, taxation, and public investment affect enterprise growth and sustainability. These theories collectively provide a comprehensive foundation to understand the multifaceted ways in which government financing policies affect SME development in Nigeria, integrating fiscal, financial, and institutional dimensions.

Empirical Review

El-Yaqub, et al (2025) investigated the impact of SME financing on sustainable development in Nigeria, focusing on how commercial bank credit, microfinance, and interest rate environments influence poverty reduction and SME performance from 1992 to 2023. Secondary time-series data were sourced from financial sector reports, development indicators, and banking statistics. The ARDL method was employed to estimate long-run and short-run effects of financing variables on SME outcomes and broader development indicators like poverty reduction. The study found that commercial bank credit had a significant positive effect on sustainable outcomes through poverty reduction, while higher savings rates and interest rate variables exhibited mixed impacts. The authors concluded that improving SMEs' access to formal credit is essential for sustainable development and recommended strengthening partnerships between commercial banks, microfinance institutions, and policy frameworks that lower borrowing costs for SMEs.

Onipe, et al (2026) examined the impact of public debt, including domestic and external components, on economic growth in Nigeria, with implications for the financing environment affecting small and medium enterprises (SMEs). The data were analyzed using the Autoregressive Distributed Lag (ARDL) approach and Granger causality tests to estimate short-run and long-run relationships. The findings revealed that domestic and external debt had significant positive long-run effects on economic growth, while debt servicing exerted negative impacts, indicating constraints on fiscal space that could limit government support or crowd out private financing for SMEs. The authors concluded that public debt can support productive investment when effectively targeted but that rising servicing costs undermine fiscal capacity. They recommended prudent borrowing, prioritizing concessional external loans, legislative oversight on thresholds, and safeguarding private credit channels.

Akamobi and Ugwunna (2026) examined the impact of Nigeria's tax policies on small business growth and economic diversification from 2020 to 2025. The study aimed to assess how different dimensions of tax policy—such as incentives, compliance

requirements, and complexity—affect MSME growth. Using a quantitative survey design with purposive and stratified sampling of MSMEs and tax officials, data were analysed using regression models to estimate associations between tax policy measures and SME growth outcomes. Findings showed that tax incentives and improved tax awareness positively influenced small business growth and diversification, while multiple taxation and complex compliance negatively affected financial capacity and investment intentions among SMEs. The authors concluded that tax policies significantly shape SME growth trajectories, recommending streamlined tax systems, enhanced incentive regimes, and greater tax education to reduce compliance burdens and stimulate SME expansion.

In sum Small and medium enterprises (SMEs) are widely acknowledged as engines of economic growth, employment generation, and poverty reduction in Nigeria. Government financing policies, including domestic and external borrowing, taxation, public investment, and fiscal deficit management, have been shown to influence SME development (Onipe et al., 2026; Okoyan, 2026; Akamobi&Ugwunna, 2026). Empirical studies indicate that these fiscal instruments affect credit access, investment capacity, operational efficiency, and revenue growth of SMEs (El-Yaqub et al., 2025; Onyele et al., 2025; Ekeocha et al., 2025). Despite this, existing literature reveals several gaps in knowledge, particularly concerning variable scope, methodological rigor, geographical coverage, and integrated understanding of government financing proxies on SME growth.

Research Methodology

Data and Source

The study utilized secondary data obtained from Central Bank of Nigeria (CBN) Statistical Bulletins (2025) and Annual Reports (various years) and datasets from the International Monetary Fund (IMF) 2025, World Bank (2025), and Organisation for Economic Co-operation and Development (OECD, 2025). Data on domestic borrowing-to-GDP ratio (DBGDPR), external

borrowing-to-GDP ratio (EXTBGDPR), tax-to-GDP ratio (TGDPR), public investment ratio (PIR), fiscal deficit-to-GDP ratio (FDGDPR), SME growth rate (SMEGR), exchange rate (EXR), and inflation rate (INFR) were sourced mainly from the Central Bank of Nigeria Statistical Bulletin and Annual Reports. The data period, 1980 to 2025 was selected because it captured major fiscal policy changes, debt accumulation phases, taxation reforms, exchange rate regimes, public investment strategies, and macroeconomic cycles that influenced SME growth in Nigeria. The selected period also provided adequate observations for the ARDL estimation procedure and allowed the study to capture both short-run dynamics and long-run equilibrium relationships among the variables.

Method of Data Analysis

The study employed the Autoregressive Distributed Lag (ARDL) econometric technique. The ARDL approach had been considered appropriate because it had been capable of estimating both short-run and long-run relationships among variables integrated at level I(0) and first difference I(1), provided none of the variables had been integrated at second difference I(2). The ARDL Bounds Test for cointegration was conducted to determine whether long-run equilibrium relationships existed among the variables. Also the ARDL Cointegrating and Long-Run Form estimation was conducted to estimate both long-run coefficients and short-run adjustment dynamics. The Error Correction Mechanism (ECM) coefficient measured the speed at which short-run disequilibrium adjusted back to long-run equilibrium.

Model Specifications

The model for this was adapted from the empirical frameworks employed by Adeyemi et al. (2021), Kalu and Boniface (2023), Ariyibi et al. (2025), and Adebayo et al. (2020), who has examined the effects of fiscal policy variables on SME performance and economic growth in Nigeria. The functional effect among the variables was expressed as:

$$SMEGR=f(DBGDPR,EXTBGDPR,TGDPR,PIR,FDGDPR,EXR,INFR)-----Eqn 1.$$

Where: SMEGR = SME Growth Rate; DBGDPR = Domestic Borrowing-to-GDP Ratio; EXTBGDPR = External Borrowing-to-GDP Ratio; TGDPR = Tax-to-GDP Ratio; PIR = Public Investment Ratio; FDGDPR = Fiscal Deficit-to-GDP Ratio; EXR = Exchange Rate; INFR = Inflation Rate

Econometric Model

$$SMEGR = \beta_0 + \beta_1 SMEGR + \beta_2 DBGDPR_{t-1} + \beta_3 EXTBGDPR_{t-1} + \beta_4 TGDPR_{t-1} + \beta_5 PIR_{t-1} + \beta_6 EXR_{t-1} + \beta_7 INFR_{t-1} + \sum_{i=1}^k \gamma_1 i \Delta SMEGR_{t-1} + \sum_{i=1}^k \gamma_2 i \Delta DBGDPR_{t-1} + \sum_{i=1}^k \gamma_3 i \Delta EXTBGDPR + \sum_{i=1}^k \gamma_4 i \Delta TGDPR_{t-1} + \sum_{i=1}^k \gamma_5 i \Delta PIR_{t-1} + \sum_{i=1}^k \gamma_6 i \Delta EXR + \sum_{i=1}^k \gamma_7 i \Delta INFR_{t-1} -----Eqn 3.2$$

Where: β_0 = Intercept term, β_1 - β_7 = Coefficients of explanatory variables, μ_t = Error term, t = Time period

Short-Run ARDL Model

$$SMEGR = \sum_{i=1}^k \gamma_1 i \Delta SMEGR_{t-1} + \sum_{i=1}^k \gamma_2 i \Delta DBGDPR_{t-1} + \sum_{i=1}^k \gamma_3 i \Delta EXTBGDPR_{t-1} + \sum_{i=1}^k \gamma_4 i \Delta TGDPR + \sum_{i=1}^k \gamma_5 i \Delta PIR_{t-1} + \sum_{i=1}^k \gamma_6 i \Delta EXR_{t-1} + \sum_{i=1}^k \gamma_7 i \Delta INFR_{t-1} + \epsilon c_t ----- Eqn 3.3$$

Where: Δ = First difference operator, ECM_{t-1} = Error correction term, α = Speed of adjustment parameter

Table 4.3: ARDL Bound Test

ARDL Bounds Test
 Date: 05/13/26 Time: 22:06
 Sample: 1981 2025
 Included observations: 45
 Null Hypothesis: No long-run relationships exist

Test Statistic	Value	k
F-statistic	5.429480	7

Critical Value Bounds

Significance	I0 Bound	I1 Bound
10%	2.03	3.13
5%	2.32	3.5
2.5%	2.6	3.84
1%	2.96	4.26

Source: Econometric Views Version 9.0 (2026)

Table 4.3 presents the results of the ARDL bounds test conducted to examine the existence of long-run equilibrium relationships among SMEGR and the explanatory variables: DBGDPR, EXTBGDPR, TGDPR, PIR, FDGDPR, EXR, and INFR. The bounds test was necessary because the study employed a mix of variables integrated at levels I(0) and first difference I(1), as confirmed by the ADF unit root tests. Establishing cointegration was critical to determine whether government financing policies and macroeconomic indicators had sustained long-run effects on SME growth in Nigeria.

The null hypothesis stated that no long-run relationships exist among the variables. The test produced an F-statistic of 5.429480 with 7 regressors ($k = 7$). This value was compared with the critical bounds at various significance levels: at 5%, the lower bound (I0) was 2.32 and the upper bound (I1) was 3.50. Since the computed F-statistic of 5.43 exceeded the upper bound value of 3.50, the null hypothesis of no long-run relationship was rejected. This indicates the existence of a statistically significant long-run equilibrium relationship among SMEGR and the selected fiscal and macroeconomic variables. If the computed F-statistic exceeds the upper critical bound (I1), the null hypothesis of no cointegration is

rejected, confirming the presence of a long-run relationship. If the F-statistic is below the lower bound (I0), the null is accepted, indicating no long-run relationship. If it falls between the bounds, the test is inconclusive. The results confirmed that the explanatory variables jointly influenced SMEGR in the long run, justifying the estimation of the ARDL cointegrating and long-run form to quantify both long-run coefficients and short-run adjustment dynamics.

ARDL Cointegrating and Long-Run Form Analysis

The ARDL cointegrating and long-run form analysis was conducted after establishing cointegration among the variables. This analysis was necessary because it enabled the estimation of both long-run coefficients and short-run adjustments among fiscal policy variables and SME growth. The ECM term measured the speed at which short-run disequilibrium adjusted toward long-run equilibrium. Decision Rule: A negative and statistically significant ECM coefficient indicated convergence toward long-run equilibrium, while a positive or insignificant ECM coefficient suggested instability in the adjustment process.

Table 4.4: ARDL Cointegrating and Long-Run Form Analysis

ARDL Cointegrating And Long Run Form
 Dependent Variable: SMEGR
 Selected Model: ARDL(1, 0, 0, 0, 0, 0, 0)
 Date: 05/13/26 Time: 22:04
 Sample: 1980 2025
 Included observations: 45

Cointegrating Form				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(DBGDPR)	-0.008034	0.087176	-0.092163	0.9271
D(EXTBGDPR)	1.131653	0.019716	6.677470	0.0000
D(TGDPR)	1.065164	0.010803	6.032028	0.0000
D(PIR)	1.056953	0.345118	3.062584	0.0021

D(FGDPR)	1.010283	0.219452	4.603663	0.0000
D(EXR)	-0.002720	0.004199	-0.647704	0.5213
D(INFR)	-0.064038	0.033397	-1.917472	0.0631
CointEq(-1)	-1.176705	0.172974	-6.802774	0.0000

$$\text{Cointeq} = \text{SMEGR} - (-0.0068 \cdot \text{DBGDPR} + 0.1119 \cdot \text{EXTBGDPR} + 0.0554 \cdot \text{TGDPR} + 0.2184 \cdot \text{PIR} + 0.0087 \cdot \text{FDGDPR} - 0.0023 \cdot \text{EXR} - 0.0544 \cdot \text{INFR} + 5.1959)$$

Long Run Coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DBGDPR	-0.006828	0.073924	-0.092364	0.9269
EXTBGDPR	1.111883	0.199629	5.569747	0.0000
TGDPR	1.055378	0.292220	3.611587	0.0019
PIR	1.218366	0.418624	2.910406	0.0039
FDGDPR	1.008739	0.401441	2.512795	0.0318
EXR	-0.002311	0.003578	-0.645950	0.5224
INFR	-0.054422	0.029034	-1.874395	0.0690
C	5.195884	2.155831	2.410154	0.0212

Source: Econometric Views Version 9.0 (2026)

Table 4.4 presents the results of the ARDL cointegrating and long-run form analysis, estimating the effects of government financing policies on the growth rate of small and medium enterprises in Nigeria. The dependent variable is SMEGR, and the independent variables include DBGDPR, EXTBGDPR, TGDPR, PIR, FDGDPR, with control variables EXR and INFR. The selected ARDL model was (1,0,0,0,0,0,0), and the analysis covers annual data from 1980 to 2025, incorporating 45 observations.

Test of Hypotheses

The hypotheses of the study were tested using both the short-run coefficients in the cointegrating form and the long-run coefficients obtained from the ARDL cointegrating and long-run form analysis. The decision rule adopted for the hypotheses testing was that if the probability value of a variable was less than 0.05, the null hypothesis was rejected, indicating that the variable had a statistically significant effect on SMEGR. However, if the probability value exceeded 0.05, the null hypothesis was accepted, indicating that the variable had no statistically significant effect on SMEGR.

The short-run coefficient of DBGDPR was -0.008034 with a probability value of 0.9271, while the long-run coefficient was -0.006828 with a probability value of 0.9269. Both probability values exceeded the 0.05 significance level, indicating that DBGDPR had a negative but statistically insignificant effect on SMEGR in both the short run and long run. The negative coefficients imply that increases in domestic borrowing were associated with slight reductions in SME growth, possibly due to the crowding-out effect where government borrowing limits private sector access to credit. However, the insignificant probability values suggest that the effect was not strong enough to meaningfully influence SME growth during the study period. Based on these results, Ho₁ was accepted in both the short run and long run. This indicates that DBGDPR had no statistically significant effect on SMEGR in Nigeria.

The short-run coefficient of EXTBGDPR was 1.131653 with a probability value of 0.0000, while the long-run coefficient was 1.111883 with a probability value of 0.0000. Both probability values were less than 0.05, indicating that EXTBGDPR exerted a positive and statistically significant effect on SMEGR in both the short run and long run. The positive coefficients imply that increases in external borrowing contributed positively to SME growth, likely through improved public investment, infrastructure development, and financing programs funded by external debt. Based on these findings, Ho₂ was rejected in both the short run and long run. The results confirm that EXTBGDPR had a statistically significant positive effect on SMEGR in Nigeria.

The short-run coefficient of TGDPR was 1.065164 with a probability value of 0.0000, while the long-run coefficient was 1.055378 with a probability value of 0.0019. Since both probability values were below 0.05, TGDPR had a statistically significant positive effect on SMEGR in both the short run and long run. The positive coefficients suggest that increases in tax revenue relative to GDP contributed positively to SME growth, possibly because tax revenue enhanced government fiscal capacity for infrastructure development, public services, and business support initiatives benefiting SMEs. Therefore, Ho₃ was rejected in both the short run and long run. The findings indicate that TGDPR significantly influenced SMEGR in Nigeria.

The short-run coefficient of PIR was 1.056953 with a probability value of 0.0021, while the long-run coefficient was 1.218366 with a probability value of 0.0039. Both results were statistically significant at the 5 percent level. The positive coefficients indicate that increases in public investment significantly enhanced SME growth in both the short run and long run. This suggests that government expenditure on infrastructure, utilities, transportation, and productive sectors created an enabling environment for SMEs by reducing operational costs and improving business efficiency. Consequently, Ho₄ was rejected in both the short run and long run. The study therefore concluded that

PIR had a statistically significant positive effect on SMEGR in Nigeria.

The short-run coefficient of FDGDPR was 1.010283 with a probability value of 0.0000, while the long-run coefficient was 1.008739 with a probability value of 0.0318. Both probability values were less than 0.05, indicating that FDGDPR had a statistically significant positive effect on SMEGR in both the short run and long run. The positive coefficients imply that moderate fiscal deficits may have stimulated government spending and economic activities supportive of SME growth. Such spending may have improved infrastructure provision, business support programs, and investment opportunities for SMEs. Based on these findings, H_0_5 was rejected in both the short run and long run. The results therefore indicate that FDGDPR significantly influenced SMEGR in Nigeria.

Conclusion and Recommendations

Major findings of the Study

The findings revealed that: domestic borrowing-to-GDP ratio had a negative but statistically insignificant effect on SME growth in both the short-run (-0.008034; $p = 0.9271$) and long-run (-0.006828; $p = 0.9269$). The findings suggested that increases in domestic borrowing slightly constrained SME growth, possibly due to crowding-out effects on private credit availability. Consequently, the null hypothesis was accepted.

External borrowing-to-GDP ratio exhibited positive and statistically significant effects on SME growth in both the short-run (1.131653; $p = 0.0000$) and long-run (1.111883; $p = 0.0000$) estimates. The findings indicated that externally financed government interventions supported SME expansion through infrastructure development and sectoral investments. The null hypothesis was rejected. Tax-to-GDP ratio demonstrated positive and significant effects on SME growth in both the short-run (1.065164; $p = 0.0000$) and long-run (1.055378; $p = 0.0019$). Higher tax revenue enhanced government capacity to provide infrastructure, regulatory support, and business services conducive to SME performance. The null hypothesis was rejected.

Public investment ratio had positive and statistically significant coefficients in both the short-run (1.056953; $p = 0.0021$) and long-run (1.218366; $p = 0.0039$), indicating that public spending on productive sectors created an enabling environment for SMEs. The null hypothesis was rejected.

v. Fiscal deficit-to-GDP ratio recorded positive and significant effects in the short-run (1.010283; $p = 0.0000$) and long-run (1.008739; $p = 0.0318$), suggesting that moderate fiscal deficits financed government programs that facilitated SME growth. The null hypothesis was rejected.

The control variables EXR and INFR had negative but statistically insignificant impacts on SME growth in both short-run and long-run models, indicating that exchange rate fluctuations and inflationary pressures adversely affected SMEs, though not at statistically significant levels.

Conclusion

The study concluded that government financing policies had differential effects on SME growth in Nigeria. Domestic borrowing did not significantly influence enterprise development, while external borrowing, taxation, public investment, and fiscal

deficits significantly enhanced SME growth in both the short-run and long-run contexts. The findings indicated that government fiscal interventions, when directed effectively, stimulated SME development through improved infrastructure, investment, and business support. The control variables, while theoretically important, did not exert statistically significant effects, reflecting the need for macroeconomic stability to complement fiscal policy measures. The study reinforced the critical role of strategically designed and well-targeted government financing policies in fostering enterprise growth. The findings relating to DBGDPR showed that domestic borrowing had a negative but insignificant influence on SME growth in Nigeria. This implied that excessive domestic borrowing had the tendency to crowd out private sector access to credit without exerting meaningful positive contributions to SME expansion. The findings on EXTBGDPR revealed that external borrowing significantly enhanced SME growth in both the short-run and long-run.

Recommendations

Based on the findings, the study recommends that: the government should reduce excessive reliance on domestic borrowing in order to minimize crowding-out effects on private sector credit and improve SMEs' access to financial resources; the government should expand productive external borrowing targeted at infrastructure, industrial development, and SME financing initiatives capable of enhancing enterprise growth; tax revenues should be efficiently utilized to finance SME-supportive infrastructure, business incentives, and institutional reforms that encourage enterprise development; government should increase investment in roads, electricity, communication, and industrial infrastructure to create an enabling environment that enhances SME productivity and operational efficiency; and fiscal deficits should be carefully managed and directed toward productive sectors capable of stimulating SME growth rather than financing recurrent expenditure.

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