Effect of Macro -Economic Policies on SMEs Development in Delta State

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Article
This study investigated the influence of macro-economic policies on SMEs development in Delta State, Nigeria. The study adopted survey research design. Target population comprised 2388SMEs in the three Senatorial districts in Delta State. Purposive sampling technique was adopted in selecting the SMEs and sample size of 477 was generatedthrough Krejcie and Morgan formula (1970). Structured questionnaire was adopted, validated and used for data collection. Cronbach’s Alpha coefficients for the constructs ranged from 0.867 to 0.936. The response rate was 73%. Data were analyzed using descriptive and inferential (multiple regression) statistics. Findings of the study revealed;macroeconomic monetary policy variables of financing, interest rate, exchange rate, taxation, unemploymentdo not have combined significant positive influence on SME development in Delta State (p-value <0.00<.05).The study recommended that government macro-economic policies of financing, interest rate, exchange rate plays a pivotal role in SMEs development, hence, government should provide favourable macro-economic policies that will aid low-interest rate, SMEs funding and low-exchange rate.

Key Word: Micro- economics policies, Development, SMEs

I. Introduction
In order to confront world economic challenges obstructing viable human development, world leaders came up with the Millennium Development Goals (MDGs) in 2000. The original target of these goals was to be accomplished by year 2015. One of the major tenets of this goal was to “eradicate extreme poverty and hunger”. A major avenue identified by world leaders to eradicate extreme poverty and hunger is the development of small and medium enterprises (SMEs) across the world.According to Omar, Arokiasamy& Ismail, (2009) and Hooi (2006), there is no globally acceptable definition of SME. But Garikai (2011) opined “SMEs are defined by number of workers employed, capital employed and sales turnover. SMEs are thus classified by the number of employees and by the value of their assets”. However, Katua (2014) contextually surveyed the definition of SME from different countries.

Obitayo (1991), defined a small-scale enterprise as an enterprise with working capital base not exceeding 250,000 naira and employing on full time basis, 50 workers or less. The Nigerian Bank for Commerce and Industry (NBCI) defines small-scale business as one with total capital not exceeding 750,000 naira (excluding cost of land but including working capital). The Federal Ministry of Industry’s guidelines to NBCI defined a small-scale enterprise as one with a total cost not exceeding N500, 000 (exceeding cost of land but including working capital). However, Oduntan (2014) deduced from all these definition that SME could mean enterprises that have the capacity to employ at most 500 employees and at least 10 employees. However,According to Small and Medium Enterprises Development Agency of Nigeria (SMEDAN, 2012) in categorized SMEs into the following: Micro enterprise, small enterprise and medium enterprises.

Macroeconomic policy alludes to those Government policies targeted at the aggregate economy, usually to advance the macro objectives of employment creation, steadiness, and development. Popular macroeconomic policies are monetary and fiscal. Fiscal policy is the macroeconomic policy which involves the government making changes to their spending or tax in order to invigorate financial development while monetary policy manages changes in cash supply or changes with the parameters that influences the supply of cash in the economy. According to Ogungbe (2015) the aim of the policy is sustaining financial growth, price stability and employment creation. Financial markets assume critical roles in the economy of any nation particularly in the mobilization, distribution, re-distribution as well as the evaluation of capital assets through the different phases of budgetary intermediation. Lawal (2017) asserted that the accomplishment of any financial system relies upon its degree of proficiency. Macroeconomic policy measures and worldwide exogenous components have contributed extraordinarily to the Nigerian capital market bubble.

There is a sharp increase in the number of small and medium-sized organizations around the world; in any case, a few issues that thwart their development ambush this class of business. A key issue for most SMEs

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is the issue of financing. The formal financial institutions have been saddled with financing SMEs through investment financing as a SMEIS finance in Nigeria. In contrast, Abubakar and Yahaya (2013) study was in light of the Federal government's desire to help SMEs as vehicles for fast industrialization, job creation and sustainable economic growth.

In Nigeria, the financing options for SMEs have to a large extent been through the informal sector with the sector providing over 70% of funds to SMEs. However, when SMEs try to get funds from formal sources of finance, they are faced with several constraints. While many of the banks are unwilling to give loans to SMEs, those that do, include high transaction costs. In a related development, Kehinde and Sikiru (2014) studied that the high interest rate and exorbitant administrative cost. This has led to a decline in financing for SMEs.

In 2016, Nigeria faced recession for the first time in over twenty years as a result of factors such as the continued decline in oil prices, inadequate supply of foreign exchange and the drastic reduction in oil production. Faced with serious macroeconomic challenges, the Nigerian government through the Central Bank of Nigeria (CBN) embarked on a contractionary monetary policy stance to aid economic recovery. One of which was the promotion of entrepreneurship and SMEs. In Nigeria, the microfinance policy regulatory and supervisory framework was propelled to address the issue of inadequate access to credit by SMEs. The center goal of the Microfinance strategy is to make financial services open to a huge fragment of the conceivably profitable Nigerian populace which has had practically zero access to financial services and engage them to add to provincial change, financial development and poverty alleviation.

Despite all these policies Mba and Izuwanne (2014) study aimed at helping SMEs to move out of their financial entanglement, SMEs are still perplexed by various issues. These range from trouble in getting to credit to stringent advance conditions, short advance reimbursement period, reluctance of MFBs to fund a few areas of the SMEs and high interest rates.

In a related development, Kehinde and Sikiru (2014) studied financial structure mix effect on growth and earnings of SMEs in Nigeria. Using descriptive statistics, found that granting pioneering status for macro economic policy will go a long way to create a strong earnings base for the SMEs. Therefore, on the basis of their findings, recommended professionalism should be adopted in financial structure mix and management of the SMEs for increased earnings and growth. In contrast, Abubakar and Yahaya (2013) study strengthening SMEs as a strategy for poverty reduction in North Western Nigeria. Using T-test method of analysis, found that large enterprises contribute more in the area of joint micro economic policy provision than the SMEs. They therefore, on the basis of their findings recommended that government should make a practical approach to poverty alleviation by emphasizing on the strength of the poor and their productive capacity and not on their weaknesses.

Thus, this study investigated the effect of joint micro-economic policy on SMEs development (interest rate, exchange rate, profitability) in Delta State, Nigeria.

II. Literature Review and Theoretical Framework

Macroeconomic policies include taxes, government spending and borrowing, exchange rate determinants, and monetary and credit rules. The primary goal of effective macroeconomic policies is to reduce uncertainty and risk in economic decision-making. A stable macroeconomic environment enhances prospects for growth and improved living standards. But stability is not the only concern: these policies also have an important impact on how income is distributed across economic classes and across generations.

Macroeconomics policy has been adjudged to be in certain perspectives based on various postulations and parameters by different scholars. These perspectives are majorly monetary and fiscal policies. Nwosa and Akinbobola (2016). Monetary policy is associated with interest and exchange rate while fiscal policy is associated with taxation and government’s spending pattern to curb unemployment in the country. According to World Bank (2014) Macroeconomics is the branch of economics that deals with the overall functioning of the economy. Macroeconomic policies are critical in shaping the landscape within which factor markets (such as labor and capital) and product markets (such as shoes, cars, or bread) operate. They have a critical influence on decisions by companies to produce, hire or fire workers, or export and import goods, for example. They also determine household decisions to consume, save, and borrow, and government decisions to invest in infrastructure, education and many other aspects of development. Macroeconomic policies include taxes, government spending and borrowing, exchange rate determinants, and monetary and credit rules. The primary goal of effective macroeconomic policies is to reduce uncertainty and risk in economic decision-making. A stable macroeconomic environment enhances prospects for growth and improved living standards.

There are three main types of government macroeconomic policies are as follows: 1. Fiscal Policy 2. Monetary Policy 3. Supply-side Policies. Fiscal policy refers to changes in government expenditure and taxation. Government expenditure, also called public expenditure, and taxation occur at two main levels – national and local., Monetary policy includes changes in the money supply, the rate of interest and the exchange
rate, although some economists treat changes in the exchange rate as a separate policy. Supply-side policies are policies designed to increase aggregate supply and hence increase productive potential.

Macroeconomic phenomena largely determine the success and tasks of the nation in economic development. Through economic policy the nation can influence its economic situation and one of the disadvantages of macro economic policy is the problem of heterogeneous groups.

Keynesian Macroeconomic theory is the theory related to macro economic policy, it proposed an economic agenda in order to address the fact that “the outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and income” (John Maynard Keynes 1973, p. 372). The focus of his proposal was the capacity that the State should hold to steer the economic system, given that, if left to the free workings of market, the economic system and macroeconomic policies themselves – unless there was coordination among them – would not to solving, but to enlarging the main problems of monetary production economies. According to Keynes, the economic agenda of mobilizing resources to generate effective demand and distribute income involves nothing more than the set of conventional macroeconomic policies – fiscal and monetary and, in an open context, exchange rate policies.

The main component of these central controls is macroeconomic policies, because of three reasons. Firstly, they serve as an anchor to the entrepreneur’s expectations, signaling the general tendency the government pursues, which translates itself in the direction it would drive the economic activity through. Secondly, one of the macroeconomic policies, namely the fiscal one, is able to directly impact effective demand, and so it can substitute private expenditures whenever they are reduced, preventing insufficient effective demand. Thirdly, macroeconomic policies, together with the political and juridical stances, build the society’s institutional structure. The more prone-to-business, stable, credible and transparent such environment is, the more it would favor good and trustful expectations, stimulating investments. So, macroeconomic policy is the true “market signals” in the Post Keynesian economics, serving as the basis upon which entrepreneurs form good expectations in their investment decision-making process.

III. Methodology

The study adopted a descriptive survey design. The population of the study comprised of 2,388 members of staff of twenty Small and Medium Enterprises (SMEs) in Delta State, Nigeria. The sample size of the study is 477 members of staff drawn from the entire population of 2,388 in selected Small and Medium Enterprise in Delta State. Krejcie and Morgan (1970) was used to determine the sample size. Purposive sampling technique was adopted for the study. This has to do with the researcher choosing 20 Small and Medium Enterprises from a total of 2388 small and medium enterprises in Delta State. The justification for this is that the study focused only on identified seasoned SMEs owners in Delta State who were technically and operationally judged SMEs operators. The choice of these 20 Small and Medium Enterprises was based on their evenly distribution and engagement in nine (9) different types of manufacturing activities. Cronbach’s Alpha coefficients for the constructs ranged from 0.867 to 0.936. Multiple regression method of analysis was adopted to show the effects of micro-economic policy on development of SMEs in Delta State, Nigeria. The model for analysis is:

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mu \]

Where,

\( Y \) = SMEs development (\( y_1 \)=monthly profit; \( y_2 \)=number of employees; \( y_3 \)=total capitalization)
\( X \) = Micro-Economic policy (\( x_1 \)=micro economic policy, \( x_2 \)=medium enterprise).
\( \beta_0, \beta_1, \beta_2 \) and \( \beta_3 \) coefficients of determination
\( \mu \) = the error terms

IV. Discussion Of Findings

Re-statement of Hypothesis one

H0: Micro-economic policy does not have significant effect on SMEs development in Delta State

### Table 1: Effect of Micro-economic policy on SMEs development

<table>
<thead>
<tr>
<th>Model</th>
<th>B</th>
<th>Std. Error</th>
<th>Beta</th>
<th>T</th>
<th>Sig.</th>
<th>R</th>
<th>Adj. R²</th>
<th>F-Value</th>
<th>Sig.</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>.647</td>
<td>.394</td>
<td></td>
<td>1.821</td>
<td>.102</td>
<td>.658</td>
<td>.782</td>
<td>98.422</td>
<td>.000</td>
<td>1.923</td>
</tr>
<tr>
<td>Finance</td>
<td>1.102</td>
<td>.041</td>
<td>.152</td>
<td>2.972</td>
<td>.021</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate</td>
<td>1.943</td>
<td>.023</td>
<td>1.032</td>
<td>3.954</td>
<td>.014</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exchange rate</td>
<td>.853</td>
<td>.011</td>
<td>1.130</td>
<td>2.984</td>
<td>.001</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxation</td>
<td>1.654</td>
<td>1.063</td>
<td>1.743</td>
<td>0.274</td>
<td>.072</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment</td>
<td>1.743</td>
<td>.023</td>
<td>1.082</td>
<td>4.954</td>
<td>.018</td>
<td></td>
<td></td>
<td></td>
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</table>

Dependent Variable: Employee Performance

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Table 1 for model one, revealed that coefficient of relative effect (R= 0.658) shows a strong positive correlation exists between macro economic policy components (finance, interest rate, exchange rate, taxation, and unemployment) and SMEs development. The coefficient of determination (Adj.R²) of 0.782 shows that macroeconomic policy components (finance, interest rate, exchange rate, taxation, and unemployment) explained 78.2% of variation in SMEs development.

However the model did not explain 21.8% of the variation in SMEs development, implying that there are other factors associated with SMEs development, which were not captured in the model. Furthermore, Table 4.11 also shows the ANOVA result. The result revealed that overall, the explanatory power of the model was considered statistically significant with the F ratio output of the model reporting a p-value of .000 (F= 98.422, p<0.05). This indicated that macroeconomic policy components do not have positive and significant effect on SMEs development in Delta State.

However, this finding negates works of Solow (1956) and Swan (1956) who found a positive relationship between macroeconomic policies and SMEs development. Similarly, Rodrik and Subramanian (2004) on the India economy, they observed that macroeconomic policy particularly fiscal, should be given priority attention to capital and public investments by making them of higher proportion in gross government expenditure, thereby creating more jobs and enhancing the quality of public spending and the attainment of sustainable growth and development.

ADD STUDIES SUPPORTING THIS FINDINGS

In a similar study by Rodrik and Subramanian (2004) on the India economy, they observed that macroeconomic policy particularly fiscal, should be given priority attention to capital and public investments by making them of higher proportion in gross government expenditure, thereby creating more jobs and enhancing the quality of public spending and the attainment of sustainable growth and development. Hence the India Government must put a stop to the unproductive foreign borrowings, wasteful spending and uncontrolled money supply and embarked upon specific policies aimed at achieving increased and sustained productivity in all sectors of the economy. In a similar study by Rodrik and Subramanian (2004) on the India economy, they observed that macroeconomic policy particularly fiscal, should be given priority attention to capital and public investments by making them of higher proportion in gross government expenditure, thereby creating more jobs and enhancing the quality of public spending and the attainment of sustainable growth and development.

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V. Conclusion and Recommendations

The study investigated the effect of macroeconomic policy components on SMEs development in Delta State. Hence macroeconomic policy management is essential for SMEs development. The researcher recommended that future studies should investigate the nexus of poverty and economic growth. Such a study might guide and inform policymakers on the stability of economic growth and poverty reduction in Africa and globally.

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ADD MORE TO THIS SECTION BASED on THE FINDINGS

References


