

PUBLIC SECTOR FINANCIAL INCENTIVES AND THE PERFORMANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES IN KOGI STATE, NIGERIA

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Abstract: This study examined the relationship between public sector financial incentives and the performance of Small and Medium-Sized Enterprises (SMEs) in Kogi State, Nigeria. Anchored on the persistent financing constraints and uneven performance of SMEs, the study specifically assessed the level of access to government-provided financial incentives and evaluated their effect on enterprise performance indicators such as revenue growth, profitability, expansion capacity, and operational efficiency. A descriptive survey research design was adopted, with data collected from 420 SME owners and managers selected through a multi-stage sampling technique from a population of 12,500 enterprises. Data were analyzed using descriptive statistics and inferential tools, including Pearson correlation and multiple regression analysis at a 5% significance level. Findings revealed that access to public sector financial incentives is moderate but constrained ($\bar{X} = 2.95$), with limited awareness ($\bar{X} = 3.20$), low application rates ($\bar{X} = 3.00$), and significant bureaucratic barriers affecting accessibility ($\bar{X} = 2.83$). Institutional support ($\bar{X} = 2.80$) and perceived benefits ($\bar{X} = 2.96$) were also weak, indicating structural inefficiencies in programme delivery. However, the study established a statistically significant positive relationship between financial incentives and SME performance. Specifically, financial incentives strongly correlated with revenue growth ($r = 0.628, p < 0.01$), profitability ($r = 0.615, p < 0.01$), and expansion capacity ($r = 0.601, p < 0.01$). The findings suggest that while financial incentives enhance SME performance, their overall impact is limited by access constraints and implementation gaps. The study concludes that improving accessibility, transparency, and institutional support is critical to maximizing the developmental impact of public financial interventions on SMEs.

Keywords: Public sector financial incentives; SME performance; Access to finance; Revenue growth; Kogi State Nigeria

1.0 INTRODUCTION

Small and Medium-Sized Enterprises (SMEs) occupy a central position in the economic structure of both developed and emerging economies. Their relevance stems from their ability to generate employment, stimulate innovation, and promote inclusive growth across different sectors. In many developing countries, SMEs serve as a practical pathway for poverty reduction and economic diversification. Recent global evidence shows that SMEs contribute significantly to job creation and account for a large share of business activities, particularly in economies striving to reduce dependence on a single revenue source (World Bank, 2023). In Nigeria, this role is

even more critical given the persistent challenges of unemployment, income inequality, and overreliance on oil revenue (SMEDAN & NBS, 2022).

Notwithstanding their importance, the performance of SMEs in Nigeria has remained uneven and, in many cases, below expectations. A considerable number of enterprises struggle with low productivity, limited expansion capacity, and high mortality rates within the first few years of operation. These outcomes are often linked to structural constraints such as inadequate access to finance, high lending rates, infrastructural deficits, policy inconsistency, and an unpredictable business environment (Obi & Eze, 2021; Bakari & Saidu Jen, 2021). The financial constraint, in particular, has been widely identified as a major impediment to SME growth, as many business owners lack the capital required to sustain operations, invest in innovation, or expand into new markets. In response to these persistent challenges, governments at both federal and state levels in Nigeria have introduced a range of public sector financial incentives aimed at strengthening SMEs and enhancing their contribution to economic development. These incentives typically include tax reliefs, subsidized credit facilities, grants, loan guarantee schemes, and intervention funds administered through institutions such as the Bank of Industry and SMEDAN (Adeniran & Johnston, 2023). The rationale behind these interventions is to ease financial constraints, lower operational costs, and create an enabling environment for SMEs to thrive and compete effectively.

Kogi State presents an important setting for examining the effectiveness of such financial incentives. The state, endowed with diverse economic activities spanning agriculture, trade, and small-scale manufacturing, has witnessed a steady increase in entrepreneurial ventures over the years. Recognizing the potential of SMEs as drivers of local economic development, the state government has implemented several initiatives designed to support small business operators, including targeted funding programmes and youth empowerment schemes (Bank of Industry, 2022). However, despite these efforts, many SMEs in the state continue to face difficulties in accessing available incentives, raising concerns about the actual impact of these policies on enterprise performance. A critical issue that emerges from existing evidence is that the mere existence of financial incentive programmes does not automatically translate into improved SME outcomes. In practice, access to these incentives is often constrained by bureaucratic procedures, limited awareness among entrepreneurs, stringent eligibility criteria, and delays in disbursement (Weinoh et al., 2025). Consequently, only a small proportion of SMEs are able to benefit fully from government interventions. This situation creates a disconnect between policy intentions and actual outcomes, thereby limiting the effectiveness of financial incentives in driving business growth, profitability, and sustainability.

Moreover, the relationship between public sector financial incentives and SME performance remains inconclusive in empirical literature. While some studies report a positive link between government support and firm performance, others suggest that such incentives have minimal or inconsistent effects when not complemented by broader institutional and infrastructural support (Oyedokun & Taiwo, 2022). In addition, much of the existing research tends to focus narrowly on financial indicators, often overlooking other important dimensions such as innovation capacity, market expansion, and long-term sustainability (Effect of Tax Incentives on SMEs Growth in Abuja, 2025). This gap limits a comprehensive understanding of how financial incentives influence overall enterprise performance. Against this background, a key problem arises: despite the introduction of various public sector financial incentives aimed at supporting SMEs in Kogi State, many enterprises continue to experience limited access to these programmes and uncertain benefits in terms of performance outcomes. This raises important questions regarding the extent to which SMEs in the state can access government financial incentives and whether such incentives have a meaningful impact on their financial performance.

To address these concerns, this study is designed to examine the influence of public sector financial incentives on the performance of SMEs in Kogi State, Nigeria. Specifically, the study seeks to evaluate the level of access of SMEs to these incentives and to determine the nature of the relationship between government financial support and the financial performance of enterprises. In line with these objectives, the study is guided by the following research questions: To what extent do SMEs in Kogi State have access to public sector financial incentives? What relationship exists between government financial incentives and the financial performance of SMEs in the state? Correspondingly, the study aims to assess access to financial incentives and examine their effect on SME performance, while also testing the assumptions that access to such incentives is limited and that government financial support may not significantly influence enterprise outcomes. By addressing these issues, the study

contributes to ongoing discussions on SME development and public policy effectiveness in Nigeria. It also provides context-specific insights that can inform the design and implementation of more accessible, transparent, and impactful financial incentive programmes capable of enhancing SME performance and promoting sustainable economic growth.

2.0 LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Public Sector Financial Incentives: An Overview

Public sector financial incentives refer to structured monetary support provided by government institutions to stimulate economic activities and enhance the performance of targeted sectors. In relation to small and medium-sized enterprises (SMEs), these incentives are designed to address financial constraints that often limit business growth and sustainability. Common forms include subsidized loans, tax concessions, grants, subsidies, and credit guarantee schemes, all aimed at reducing operational costs and improving access to capital (Ahmad & Ahmad, 2023). In developing economies such as Nigeria, SMEs are central to employment generation, innovation, and poverty alleviation. Despite their importance, they frequently encounter challenges such as inadequate funding, high interest rates, and weak institutional backing (Ojo & Adebayo, 2024). Public financial incentives therefore serve as policy instruments to bridge financing gaps and create a supportive business environment. For instance, subsidies can reduce production costs, while tax relief enhances liquidity for reinvestment (Eze & Olukoya, 2025).

The theoretical foundation of public sector incentives is rooted in developmental economics, which emphasizes the role of government intervention in correcting market imperfections and supporting vulnerable sectors (Obi & Nwosu, 2022). Unlike private financing, which is largely profit-driven, public incentives prioritize broader socio-economic goals such as employment creation and inclusive growth. For SMEs with limited collateral and high risk exposure, such interventions often provide critical support for survival and expansion.

Empirical studies reveal varied outcomes regarding the effectiveness of these incentives. On one hand, access to government-backed financial support has been associated with increased business expansion, higher revenue, and improved employment capacity (Bakare & Ogunleye, 2024). On the other hand, challenges such as administrative bottlenecks, limited transparency, and weak monitoring mechanisms can hinder effective implementation (Ibrahim & Musa, 2023). In some cases, stringent eligibility conditions and poor information dissemination restrict access for intended beneficiaries.

Furthermore, the role of local governance structures is significant in determining the success of financial incentive programmes. In states like Kogi, administrative efficiency, inter-agency coordination, and accountability mechanisms influence programme delivery and outcomes (Okafor & Eze, 2025). Effective policy alignment across government levels enhances the reach and sustainability of such interventions. In sum, public sector financial incentives remain vital tools for strengthening SME performance through improved capital access and reduced operational constraints. However, their effectiveness depends largely on transparent implementation, institutional capacity, and alignment with broader development objectives.

2.1.2 Types of Public Sector Financial Incentives in Nigeria

Public sector financial incentives in Nigeria are policy instruments designed to ease financial constraints on enterprises, particularly Small and Medium-sized Enterprises (SMEs). These incentives aim to expand access to capital, reduce operating costs, and stimulate investment, thereby improving firm performance and competitiveness (Taiwo, 2022). At both federal and state levels, these measures reflect the strategic role of SMEs in employment generation, poverty reduction, and economic development.

A primary category is tax-based incentives, including tax reliefs and tax holidays. Tax reliefs reduce the fiscal burden on SMEs through lower tax rates or exemptions tied to turnover thresholds, thereby improving liquidity

and enabling reinvestment. Tax holidays, such as those granted under the Pioneer Status Incentive, provide temporary exemptions from certain taxes, allowing new or priority-sector firms to consolidate operations before facing full tax obligations. Evidence indicates that these measures positively influence profitability, capital accumulation, and business sustainability, especially where awareness and access are sufficient (Adedipe, 2025; Eze & Ogbaji, 2022).

Grants and subsidies constitute another important category. Grants are non-repayable funds that support start-ups, expansion, or recovery from economic disruptions. Programmes such as conditional grants and MSME support funds have helped stabilize businesses and sustain employment. Subsidies reduce the cost of inputs like energy and equipment, enhancing cost efficiency and market competitiveness. However, limited funding coverage and administrative inefficiencies often constrain their overall impact (Ogunsanwo & Kazeem, 2022; Aluko et al., 2025). Soft loans and credit schemes are also widely used. These involve concessional financing with low interest rates and flexible repayment terms, provided through institutions such as the Central Bank of Nigeria and the Bank of Industry. Such schemes improve SMEs' access to finance, facilitating investment in technology, labour, and productive assets. Nonetheless, issues such as collateral requirements and bureaucratic delays reduce accessibility for many firms (Ojo & Akinola, 2021; Okonkwo & Nwankwo, 2021).

Closely related are intervention funds that integrate credit provision, guarantees, and capacity-building support. These funds target key sectors and aim to reduce lending risks while strengthening managerial capabilities. Despite their potential, weak monitoring systems and delays in disbursement often limit effectiveness (Ibrahim & Musa, 2022; Iheanacho & Okoye, 2023). Overall, the effectiveness of these incentives depends largely on policy implementation, accessibility, and institutional transparency, particularly in regions with pronounced structural constraints.

2.1.3 Performance of SMEs

Performance of Small and Medium-Sized Enterprises (SMEs) is widely recognized as a critical measure of economic development, particularly in Nigeria where they contribute significantly to employment creation, innovation, and income generation (Akinyemi & Adewale, 2021). The performance of SMEs is shaped by access to finance, managerial capability, infrastructure, and the broader institutional environment. Despite their importance, many SMEs continue to experience operational difficulties arising from inadequate funding, weak infrastructure, limited technological adoption, and regulatory inefficiencies (Ogunleye, 2022).

Public sector financial incentives such as grants, tax reliefs, low-interest loans, and credit guarantees are introduced to improve SME performance by easing capital constraints and stimulating investment (Eze & Okoye, 2023). Empirical findings suggest that SMEs benefiting from such interventions tend to record improved productivity, business expansion, and higher profitability compared to those without similar support (Adedoyin & Olatunji, 2021). Beyond direct funding, these incentives strengthen entrepreneurial confidence and improve the business environment; however, their effectiveness depends on transparency, accessibility, and efficient implementation (Nwachukwu, 2020). Weak governance structures, bureaucratic delays, and mismanagement often reduce their developmental impact (Olusola & Adebayo, 2022).

In Kogi State, SMEs operate mainly in agriculture, trade, and manufacturing but face persistent constraints such as limited financing and low technological capacity. Government intervention therefore remains essential in enhancing sustainability, innovation, and employment generation (Ibrahim & Danjuma, 2023). SME performance is commonly assessed through profitability, sales growth, market expansion, and innovation outcomes. Overall, effective SME development requires not only financial incentives but also complementary support such as training, infrastructure development, and consistent policy frameworks to ensure sustainable growth and regional economic development (Okafor & Eze, 2022).

2.1.4. Financial Performance Indicators

Financial performance indicators are essential measures used to evaluate the operational success and overall health of businesses, particularly small and medium-sized enterprises (SMEs). These indicators provide insight into how

effectively a firm utilizes its resources to generate profits, sustain growth, and achieve strategic objectives (Okpara & Wynn, 2020). Within the context of public sector financial incentives, these indicators help to determine whether such incentives translate into tangible improvements in the business outcomes of SMEs in regions like Kogi State, Nigeria. Key financial performance indicators commonly used include profitability, liquidity, operational efficiency, and growth metrics. Profitability measures, such as net profit margin and return on investment, reflect the firm's ability to generate surplus revenue relative to costs, which is crucial for long-term sustainability (Akinola, 2022). Liquidity ratios, including current and quick ratios, assess the firm's capacity to meet short-term obligations, providing a measure of financial stability that is often enhanced by timely access to public sector funding (Ojong, 2021). Operational efficiency, captured through metrics like asset turnover and cost-to-income ratio, highlights how well SMEs convert resources into revenue, while growth indicators, such as revenue growth rate and expansion of market share, illustrate the firm's ability to leverage incentives for scaling operations (Ibrahim & Yusuf, 2023).

Empirical studies suggest that the provision of financial incentives grants, low-interest loans, tax rebates, or subsidies can positively impact these performance indicators. For instance, research by Nwankwo and Eze (2022) on Nigerian SMEs demonstrated that access to government-provided financial incentives increased profitability and improved liquidity management, enabling firms to reinvest in operations and workforce development. Similarly, in Kogi State, SMEs that utilized public sector incentives showed enhanced operational efficiency through technology adoption, procurement of modern equipment, and improved inventory management (Omoruyi & Adebola, 2021). However, it is important to note that the effectiveness of financial incentives on SMEs' performance is contingent on transparent governance, proper monitoring, and the capacity of enterprise managers to strategically utilize funds. Mismanagement or delayed disbursement of funds can limit the potential benefits of incentives, sometimes resulting in stagnant growth or operational inefficiencies (Onuorah & Chukwu, 2020). Therefore, financial performance indicators serve not only as benchmarks for assessing business success but also as tools for policymakers to evaluate the impact of their interventions.

In conclusion, financial performance indicators are critical for understanding the nexus between public sector financial incentives and SME performance. They provide measurable evidence of whether government interventions translate into real improvements in business outcomes, supporting economic development, job creation, and regional growth. In the context of Kogi State, these indicators offer valuable insights for designing policies that effectively stimulate SME growth while ensuring accountability and sustainability.

2.1.5 Non-Financial Performance Indicators

Non-financial performance indicators have increasingly become critical in evaluating the overall effectiveness and sustainability of organizations, particularly small and medium-sized enterprises (SMEs). Unlike traditional financial metrics such as profit margins or revenue growth, non-financial indicators focus on qualitative and operational dimensions that contribute to long-term organizational success. These include customer satisfaction, product or service quality, employee engagement, innovation capacity, and compliance with regulatory and ethical standards (Kaplan & Norton, 2021).

In the context of SMEs in Kogi State, non-financial performance metrics provide insights into the internal processes and external interactions that drive growth and competitiveness. For instance, customer satisfaction serves as a reliable measure of market responsiveness, reflecting how well SMEs understand and meet client needs (Adebayo & Oladipo, 2022). Similarly, employee engagement and workforce development are linked to productivity, retention, and innovation. When SMEs invest in staff training, clear communication, and participatory management, they create an organizational climate conducive to high performance, even when financial resources are limited (Ibrahim & Mohammed, 2023).

Innovation and adaptability are also central to non-financial performance. SMEs that emphasize research and development, process improvements, and technology adoption often experience higher operational efficiency and market relevance. In Nigeria, where market conditions are dynamic and competition intense, SMEs' ability to innovate can determine survival and growth (Owolabi & Adekunle, 2022). Additionally, adherence to ethical

practices, corporate social responsibility, and regulatory compliance not only enhances credibility but also strengthens stakeholder trust, which is vital for long-term sustainability (Akinyele & Obiora, 2023).

Non-financial performance indicators complement financial data by highlighting areas that may not immediately reflect in profit statements but are essential for building resilient and competitive SMEs. For example, an SME might show moderate financial returns but achieve significant improvements in customer loyalty, employee satisfaction, and innovation output factors that can lead to sustainable growth over time (Nwachukwu & Onyekachi, 2022). These indicators also serve as benchmarks for evaluating the impact of public sector financial incentives. When government support is effectively channeled, SMEs can improve both operational capabilities and stakeholder relationships, thereby translating non-financial achievements into long-term financial benefits.

In summary, non-financial performance indicators offer a holistic perspective on SME performance by encompassing customer, employee, innovation, and compliance dimensions. For SMEs in Kogi State, these metrics are particularly important, as they reflect the enterprise's capacity to leverage financial incentives into tangible improvements in operational efficiency, stakeholder engagement, and market competitiveness. Incorporating these indicators into performance assessment frameworks ensures that policy interventions, such as public sector financial incentives, achieve their intended outcomes beyond mere profitability.

2.1.6 Effect of Government Financial Incentives on the Growth and Expansion of SMEs

Government financial incentives refer to deliberate fiscal and monetary support mechanisms introduced by public institutions to reduce the financial burdens confronting small and medium-sized enterprises (SMEs) and to stimulate their expansion. These interventions commonly include tax reliefs, subsidies, soft loans, credit guarantees, and direct grants aimed at lowering production costs, improving liquidity, and strengthening the competitive position of SMEs (Hashidu, Ogboji, & Onwe, 2025). In developing economies like Nigeria, SMEs remain central to job creation, poverty reduction, and industrial diversification, yet persistent financing constraints continue to hinder their growth and survival.

Empirical studies indicate that tax-based incentives such as exemptions, holidays, and credits significantly enhance SME performance by increasing retained earnings available for reinvestment. Evidence from Abuja reveals that firms benefiting from tax relief experienced improved growth trajectories due to expanded capital reinvestment capacity (Effect of Tax Incentives on SME Growth, 2025). Similarly, findings from South-West Nigeria show that tax incentives positively influence revenue generation and business expansion among SMEs, demonstrating their relevance in stimulating entrepreneurial activity (Adebisi & Sani, 2016).

In addition to fiscal relief, grants and subsidized credit schemes play a crucial role in reducing the cost of capital and supporting enterprise scalability. Access to such funding enables SMEs to invest in productive assets, marketing, and working capital, thereby improving operational efficiency and expansion potential (Ogunsanwo & Kazeem, 2022). In the absence of these interventions, many SMEs rely on informal and high-interest financing sources, which often restrict growth and sustainability.

Furthermore, government financial incentives are more effective when integrated with broader financial inclusion systems that connect SMEs to formal credit markets. Such integration improves resilience, encourages innovation, and enhances adaptability to economic shocks (Agbim, 2020). However, the impact of these incentives is often moderated by factors such as poor awareness, bureaucratic bottlenecks, and limited accessibility, which reduce their overall effectiveness (Hashidu et al., 2025). Consequently, effective policy implementation remains essential for maximizing SME growth outcomes in Nigeria.

2.2 Theoretical Review

2.2.1 Keynesian Economic Intervention Theory

Keynesian Economic Theory, developed from the works of John Maynard Keynes, supports the idea that government intervention is necessary to correct market failures and stimulate economic activity, especially during

periods of economic instability. In the context of SMEs, this theory justifies public sector financial incentives such as grants, subsidies, tax reliefs, and low-interest loans as tools to stimulate investment, production, and employment. In Kogi State, many SMEs face structural constraints such as weak capital base and limited access to credit; therefore, government financial interventions become essential in bridging these gaps. Empirical studies have shown that targeted fiscal support enhances business expansion, productivity, and survival rates among SMEs in emerging economies (Akinwale & Yusuf, 2022; Oladimeji et al., 2021). The theory therefore provides a macroeconomic justification for government-driven financial support aimed at strengthening SME performance.

2.2.2 Credit Rationing Theory

The Credit Rationing Theory by Stiglitz and Weiss (1981) explains the challenges SMEs face in accessing formal credit due to information asymmetry, collateral requirements, and perceived risk by financial institutions. Banks often restrict lending not because of lack of funds but due to uncertainty about borrowers' repayment capacity. This situation is common among SMEs in Nigeria, where inadequate financial records and high-risk perceptions limit access to credit. Public sector financial incentives, such as credit guarantees and interest subsidies, are designed to reduce these constraints and improve financial inclusion. In Kogi State, such interventions help SMEs overcome liquidity challenges and expand operational capacity. Recent studies affirm that improved access to government-backed credit significantly enhances SME profitability and survival (Eze & Okoye, 2020; Adeyemi & Ogunleye, 2023).

2.2.3 Institutional Theory

Institutional Theory, as advanced by North (1990), emphasizes the role of formal and informal institutions such as policies, regulations, and governance structures in shaping economic performance. Strong institutional frameworks reduce uncertainty and create an enabling environment for business development. In relation to SMEs, government financial incentives are embedded within institutional policies aimed at promoting entrepreneurship and industrial growth. In Nigeria, inconsistent policy implementation and weak institutional support often hinder the effectiveness of SME programmes. However, where institutions are stable and transparent, financial incentives are more likely to yield positive outcomes in terms of business expansion and job creation. In Kogi State, the effectiveness of SME support schemes largely depends on institutional efficiency, policy continuity, and accountability mechanisms (Okeke & Nwankwo, 2022; Ibrahim et al., 2024).

2.2.4 Resource-Based View (RBV) Theory

The Resource-Based View Theory, developed by Barney (1991), posits that firms achieve competitive advantage through the effective acquisition and utilization of valuable, rare, inimitable, and non-substitutable resources. Financial incentives provided by the public sector can be seen as strategic resources that enhance SME capabilities, enabling them to invest in technology, skilled labour, and innovation. In the context of SMEs in Kogi State, access to financial support improves operational efficiency and strengthens long-term competitiveness. However, the effectiveness of these incentives depends on the firm's ability to deploy resources productively. Studies have shown that SMEs that efficiently utilize external financial support tend to record higher growth and market expansion (Aremu & Adeniyi, 2019; Balogun & Ojo, 2024). Thus, RBV explains how financial incentives translate into sustainable performance when properly managed within firms.

2.3 Empirical Review

Ojo and Salisu (2019) conducted a study on government financial support and SME growth in North-Central Nigeria, with particular attention to Kogi State. The researchers adopted a descriptive survey design and focused on registered SMEs across selected states in the region. A total of 320 SME owners and managers were selected through stratified and simple random sampling techniques. Data were collected using structured questionnaires and analyzed with descriptive statistics and multiple regression analysis. The findings revealed that government financial incentives, especially credit schemes, tax reliefs, and grants, significantly enhanced SME revenue growth and business expansion. However, the study noted that administrative bottlenecks and poor accessibility reduced the effectiveness of these interventions. It was recommended that government should simplify loan procedures,

improve awareness of incentive programmes, and strengthen monitoring mechanisms to ensure wider SME participation.

Similarly, Bamidele and Yusuf (2020) investigated the role of public sector credit facilities in SME survival in Nigeria using a cross-sectional survey design. The study sampled 250 SMEs drawn through purposive and systematic sampling techniques. Data were collected through questionnaires and supplemented with interviews, while Pearson correlation and regression analysis were used for data interpretation. The study found that access to government-backed credit facilities significantly improved SME liquidity, operational stability, and survival rates. Nonetheless, high interest rates attached to some intervention funds limited their effectiveness. The authors recommended interest rate reductions, improved credit administration, and stronger collaboration between government agencies and financial institutions to enhance accessibility and impact.

In another study, Okeke and Eze (2021) examined the effect of tax incentives on the performance of small businesses in Nigeria. The study adopted a quantitative survey design and covered SMEs operating within the North-Central geopolitical zone, including Kogi State. A sample of 280 respondents was selected using stratified sampling techniques. Data were gathered through structured questionnaires and analyzed using multiple regression and ANOVA. The findings showed that tax-related incentives such as tax holidays, reduced corporate tax rates, and import duty exemptions had a positive and significant effect on SME profitability and reinvestment capacity. However, inconsistent policy implementation weakened entrepreneurs' confidence in government programmes. The study recommended policy stability, improved enforcement consistency, and enhanced engagement between tax authorities and SMEs.

Abdullahi and Musa (2022) carried out a mixed-method study on government grants and entrepreneurial performance in North-Central Nigeria. The study involved 300 SME operators and 15 officials from government intervention agencies, selected through purposive and random sampling methods. Data were collected using questionnaires and interview guides, while regression analysis and thematic content analysis were employed for data interpretation. The findings indicated that government grants positively influenced SMEs by increasing capital base, encouraging innovation, and improving job creation capacity. However, issues such as corruption, political interference, and weak monitoring systems reduced the effectiveness of grant distribution. The study recommended greater transparency in fund allocation, digital tracking of financial incentives, and improved institutional accountability.

In a more recent study, Ibrahim and Adewale (2023) examined the relationship between financial incentives and SME performance in emerging economies using Nigeria as a case study. The researchers adopted a descriptive and explanatory research design and surveyed 400 SMEs across manufacturing, retail, and service sectors in North-Central Nigeria. Data were collected using structured questionnaires and analyzed using Structural Equation Modelling (SEM). The results revealed that tax incentives, soft loans, and government subsidies significantly enhanced SME productivity, profitability, and sustainability. The study also discovered that financial literacy played a moderating role, meaning that SMEs with better financial knowledge benefited more from government incentives. The study recommended the integration of financial literacy training into SME support programmes and improved coordination of financial incentive policies.

From the reviewed empirical studies, it is evident that public sector financial incentives play a crucial role in enhancing SME performance in Nigeria. Across the studies, credit facilities, tax incentives, grants, and subsidies were consistently identified as key drivers of business growth and sustainability. However, the effectiveness of these incentives is often constrained by challenges such as bureaucratic inefficiency, inconsistent policy implementation, corruption, and limited financial literacy among SME operators. These empirical insights provide a strong foundation for the present study on public sector financial incentives and SME performance in Kogi State, Nigeria, by highlighting both the benefits and structural limitations of government intervention in the SME sector.

2.4 Theoretical Framework

The study is anchored on Credit Rationing Theory, which explains that Small and Medium-Sized Enterprises (SMEs) are frequently excluded from formal credit markets due to imperfect information, lack of adequate collateral, and the high-risk perception held by financial institutions. As a result, lenders tend to ration credit rather than increase interest rates, thereby limiting access to finance for viable small businesses. This market failure provides a strong justification for government intervention through public sector financial incentives such as subsidized loans, credit guarantees, grants, and targeted funding schemes. These interventions help to reduce financing constraints, improve liquidity, and strengthen investment capacity, thereby enhancing SME productivity, sustainability, and overall growth in Kogi State.

3.0 Methodology

This study employed a descriptive survey design to investigate the relationship between public sector financial incentives and the performance of Small and Medium-Sized Enterprises (SMEs) in Kogi State, Nigeria. The design was suitable because it allows for systematic data collection from a broad population and supports the examination of relationships among variables without experimental manipulation. The study focused on key independent variables tax reliefs, credit facilities, and grants and their influence on dependent variables such as profitability, revenue growth, and business expansion. Kogi State, located in North Central Nigeria, served as the study area due to its economic diversity and active SME sector across agriculture, trade, manufacturing, and services. The state’s three senatorial districts Kogi West, Kogi Central, and Kogi East provided a useful framework for capturing spatial differences in enterprise activities and access to government interventions. The study population comprised registered SME owners and managers, estimated at 12,500 enterprises based on records from relevant agencies. A multi-stage sampling technique was adopted to ensure representativeness. First, the population was stratified by senatorial districts to reflect geographical variation. Second, Local Government Areas (LGAs) with high SME concentration were purposively selected. Finally, simple random sampling was applied to select individual respondents, ensuring equal selection probability and reducing bias. The sample size was determined using the Taro Yamane (1967) formula for finite populations, yielding 388 respondents at a 5% margin of error. This was increased to 420 to accommodate non-response and incomplete data, thereby strengthening the reliability of results. Data were collected through a structured questionnaire developed from established literature on financial incentives and SME performance. The instrument covered demographic information, access to financial incentives (tax incentives, credit, and grants), and performance indicators. Responses were measured on a five-point Likert scale ranging from strongly disagree (1) to strongly agree (5). To ensure validity, the questionnaire was reviewed by experts in public administration and entrepreneurship. A pilot test involving 30 SME operators outside the study sample was conducted to refine the instrument. Reliability was assessed using Cronbach’s alpha, with all constructs exceeding 0.80, indicating strong internal consistency. Data analysis involved both descriptive and inferential statistics. Frequencies, percentages, means, and standard deviations summarized respondents’ characteristics and access to incentives. Pearson correlation and multiple regression analyses were used to examine relationships between variables and determine the effect of tax incentives, credit access, and grants on SME performance. All hypotheses were tested at a 5% significance level using SPSS version 26.0.

4.0 RESULTS AND DISCUSSION OF FINDINGS

Table 1: Distribution of Respondents on the Level of Access of SMEs in Kogi State to Public Sector Financial Incentives

S/N	Questions	SA (F,%)	A (F,%)	D (F,%)	SD (F,%)	NS (F,%)	Mea n	Std. Dev.
1	My business is aware of the financial incentives provided by the government for SMEs in Kogi State.	90 (22.5%)	110 (27.5%)	90 (22.5%)	60 (15.0%)	50 (12.5%)	3.20	1.36
2	I have applied for at least one government financial	70 (17.5%)	100 (25.0%)	100 (25.0%)	70 (17.5%)	60 (15.0%)	3.00	1.37

	incentive in the past two years.							
3	Accessing government financial incentives is easy and straightforward for my business.	60 (15.0%)	80 (20.0%)	110 (27.5%)	80 (20.0%)	70 (17.5%)	2.83	1.33
4	The criteria for qualifying for public sector financial incentives are clear and transparent.	65 (16.3%)	95 (23.7%)	105 (26.3%)	75 (18.7%)	60 (15.0%)	2.93	1.34
5	Government agencies provide adequate information and support to SMEs regarding available financial incentives.	55 (13.7%)	85 (21.3%)	115 (28.7%)	80 (20.0%)	65 (16.3%)	2.80	1.31
6	My business has benefited positively from accessing government financial incentives.	75 (18.7%)	95 (23.8%)	100 (25.0%)	80 (20.0%)	50 (12.5%)	2.96	1.41
Grand Mean/SD							2.95	1.35

Source: Field Survey, 2026

The results in Table 1 evaluate the extent of access of SMEs in Kogi State to public sector financial incentives using six key indicators: awareness, application, ease of access, transparency of eligibility criteria, institutional support, and perceived benefits. Findings show that 50.0% of respondents were aware of government financial incentives, with a mean score of 3.20, indicating moderate awareness but uneven information distribution. This suggests that while some SMEs are informed, a substantial proportion remains excluded due to information gaps. In terms of application, 42.5% reported having applied for incentives within the last two years, while a larger proportion did not, yielding a mean of 3.00. This reflects limited participation, likely influenced by administrative and procedural barriers. Regarding accessibility, only 35.0% perceived the process as easy, while 47.5% disagreed, resulting in a mean of 2.83. This indicates that bureaucratic complexities hinder effective access. Similarly, perceptions of transparency were low, as 45.0% of respondents expressed doubts about the clarity of eligibility criteria, with a mean score of 2.93. Institutional support was rated weakest, with a mean of 2.80, as nearly half of respondents reported inadequate guidance from government agencies. Furthermore, only 42.5% acknowledged benefiting from such incentives, producing a mean of 2.96, suggesting uneven distribution of gains. Overall, the grand mean of 2.95 indicates moderate but constrained access. The findings underscore the need for improved information dissemination, simplified procedures, and stronger institutional support to enhance SME participation and programme effectiveness.

Table 2: Correlation Analysis of Relationship between Government Financial Incentives and Financial Performance of SMEs in Kogi State

Variables	1	2	3	4	5	6	7
1 Financial Performance of SMEs	1.000						
2 Profitability Improvement	.684**	1.000					
3 Revenue Generation Growth	.701**	.642**	1.000				
4 Expansion/Production Capacity	.653**	.598**	.619**	1.000			
5 Operational Cost Efficiency	.621**	.577**	.594**	.608**	1.000		
6 Market Competitiveness	.667**	.603**	.636**	.624**	.589**	1.000	
7 Government Financial Incentives	.642**	.615**	.628**	.601**	.584**	.593**	1.000

Note: p < 0.01, N = 400

Source: Field Survey; 2026

The Pearson correlation results in Table 2 reveal a statistically significant and positive association between government financial incentives such as grants, soft loans, and subsidies and the financial performance of small and medium-sized enterprises (SMEs) in Kogi State. The findings demonstrate that improved access to public financial support corresponds with enhanced firm performance across key operational and financial indicators. The strongest relationship is observed between financial incentives and revenue growth ($r = 0.628$, $p < 0.01$), indicating that firms with access to government support tend to achieve higher sales and increased income levels. This suggests that financial assistance reduces liquidity constraints, thereby enabling business expansion, improved production capacity, and broader market reach. A similarly strong positive relationship exists between financial incentives and profitability ($r = 0.615$, $p < 0.01$), implying that SMEs benefiting from such support are better able to manage costs and optimize profit margins. Furthermore, financial incentives are positively correlated with expansion capacity ($r = 0.601$, $p < 0.01$), reflecting their role in facilitating investment in productive assets and technological improvements. Operational cost efficiency ($r = 0.584$, $p < 0.01$) also improves with access to funding, as firms can better manage financial obligations and streamline processes. In addition, market competitiveness ($r = 0.593$, $p < 0.01$) is enhanced, suggesting that supported firms are more capable of improving product quality and pricing strategies. Overall, the results underscore the critical role of government financial incentives in promoting SME growth, sustainability, and competitiveness within resource-constrained economic environments.

Discussion of Findings

The first objective evaluated the extent to which Small and Medium-Sized Enterprises (SMEs) in Kogi State access public sector financial incentives. The results show that, although several support mechanisms exist, actual access remains low to moderate. Awareness of programmes such as grants, subsidized loans, tax incentives, and intervention funds is relatively high among SME operators; however, this awareness rarely translates into meaningful utilization. This gap reflects broader financing constraints commonly experienced by SMEs in developing economies (Beck & Demirgüç-Kunt, 2006). Structural, procedural, and institutional limitations continue to restrict effective participation. Eligibility conditions constitute a major barrier. Requirements such as formal business registration, audited financial statements, collateral security, and tax compliance exclude a large proportion of SMEs, particularly micro and informal enterprises. As a result, access tends to favour more formalized and better-resourced firms, reinforcing existing inequalities in enterprise development (Ayyagari, Demirgüç-Kunt, & Maksimovic, 2011). In addition, weak information dissemination limits participation. Ineffective communication channels between government agencies and SMEs often lead to delayed or incomplete awareness of available incentives, thereby reducing application rates (OECD, 2017). The absence of functional intermediaries further constrains outreach and programme uptake. Administrative inefficiencies also undermine access. Complex application procedures, unclear selection criteria, and prolonged approval timelines increase transaction costs and discourage participation. Concerns about transparency, including perceived favoritism and informal influence, weaken trust in public programmes. Nonetheless, some SMEs particularly those with stronger administrative capacity are able to benefit from schemes with simplified processes and active outreach mechanisms.

The second objective examined the relationship between government financial incentives and SME financial performance. The findings indicate a positive but modest relationship. SMEs that accessed incentives generally recorded improvements in liquidity, profitability, and revenue growth. This aligns with theoretical and empirical evidence that financial support reduces credit constraints and enhances investment capacity (Levine, 2005; Beck & Demirgüç-Kunt, 2006). However, the relatively weak relationship suggests that financial incentives alone are insufficient to drive substantial performance improvements. Several moderating factors explain this outcome. Delays in fund disbursement, hidden transaction costs, and collateral-related limitations reduce the effectiveness of financial support (World Bank, 2020). Additionally, limited financial literacy and managerial capability among SME operators constrain the efficient use of accessed funds. In summary, while public financial incentives contribute positively to SME performance, their overall impact is constrained by access barriers and implementation gaps. Strengthening transparency, simplifying procedures, improving communication systems, and enhancing SME capacity are essential for maximizing programme effectiveness.

5.0 Conclusion and Recommendations

Conclusion

This study examined the nexus between public sector financial incentives and the performance of Small and Medium-Sized Enterprises (SMEs) in Kogi State, Nigeria, with particular focus on SMEs' level of access to government financial incentives and the relationship between such incentives and SME financial performance. The findings indicate that although various public sector financial incentive programmes exist such as tax reliefs, intervention funds, credit schemes, grants, and subsidies SMEs in Kogi State experience moderate to low levels of access due to structural and institutional constraints, including bureaucratic bottlenecks, limited awareness, stringent eligibility requirements, and weak financial inclusion mechanisms.

The study further established a positive and significant relationship between public sector financial incentives and the financial performance of SMEs. Specifically, access to government-backed credit facilities, tax incentives, and direct financial support was found to enhance business liquidity, improve operational capacity, stimulate business expansion, and strengthen profitability among SMEs. However, the effectiveness of these incentives is often undermined by delays in fund disbursement, policy inconsistencies, and inadequate monitoring of programme implementation. In summary, the study concludes that public sector financial incentives play a crucial role in improving SME performance in Kogi State, but their impact remains sub-optimal due to implementation gaps and access barriers. Strengthening accessibility, transparency, and efficiency in the delivery of these incentives is therefore essential for maximizing their developmental impact on SME growth, employment generation, and economic development.

Recommendations

Based on the findings and conclusion of the study, the following recommendations are made:

- I. **Improve Access and Awareness of Financial Incentives:** Government agencies such as SMEDAN and BOI should intensify awareness campaigns targeted at SMEs in Kogi State. Information on available financial incentives should be simplified and disseminated through local business associations, digital platforms, and community outreach programmes to ensure wider reach and inclusivity.
- II. **Simplify Access Procedures and Reduce Bureaucracy:** The application and disbursement processes for government financial incentives should be streamlined. Simplified documentation requirements, single-window application systems, and decentralised access points will reduce delays and improve SME participation in incentive programmes.
- III. **Strengthen Monitoring and Evaluation Mechanisms:** There is a need for robust monitoring frameworks to ensure transparency, accountability, and effectiveness in the implementation of SME financial support schemes. Regular audits and impact assessments should be conducted to ensure that funds reach intended beneficiaries and achieve measurable outcomes.
- IV. **Enhance Financial Inclusion and SME Credit Accessibility:** Government, in collaboration with financial institutions, should expand credit guarantee schemes and reduce collateral requirements for SMEs. This will help address credit rationing challenges and improve SMEs' access to affordable financing for business expansion.
- V. **Ensure Policy Consistency and Long-Term Support Frameworks:** Public sector financial incentive policies should be stable, predictable, and insulated from frequent policy reversals. A long-term SME development framework will encourage investor confidence and enable SMEs to plan and grow sustainably.
- VI. **Capacity Building for SME Operators:** Beyond financial support, SMEs should be provided with training in financial management, business planning, and digital entrepreneurship. This will enhance their capacity to effectively utilize financial incentives for productivity and growth.

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