

Government Support, Financial Inclusion and SMEs Performance in Nigeria – A Conceptual Framework and Literature Review

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Abstract

Purpose: This study aims to examine the interaction between financial inclusion and SME performance, assess how government support can be integrated to strengthen this relationship, and propose a conceptual framework. This is necessitated by the rapid expansion of digital financial services and fintech innovations, which have dramatically altered Nigeria's financial inclusion landscape over the past decade.

Methodology: The study employed a literature review to evaluate and synthesise existing knowledge, identify gaps, and develop a theoretical foundation.

Result and conclusion: Empirical findings have shown mixed results in the relationship between FI and SME performance. A theoretical gap was also identified. It can be concluded that, the findings suggest a moderating role for government support, which can improve the existing literature.

Implication of findings: Therefore, it is recommended that this proposed framework be tested empirically to provide an in-depth theoretical viewpoint.

Keywords: Financial Inclusion, SME performance, Signaling theory, Government Support.

1. Introduction

Small and Medium-Sized Enterprises (SMEs) globally are integral to economic growth and job creation, contributing to poverty alleviation and income distribution. SMEs are crucial as they account for approximately 90% of businesses and provide over 70% of employment, contributing a substantial 50% of a country's Gross Domestic Product both locally and internationally (Global Micro-Small & Medium-Sized Enterprises Report, 2024). Despite this critical role, the Nigerian SME sector operates within a challenging business environment characterised by inadequate access to finance, infrastructural deficiencies, regulatory uncertainties, macroeconomic volatility, institutional weaknesses, lack of access to advanced data tools and technologies due to high costs and limited technical expertise (Aina, 2025; Oyewale & Alabi, 2024; Olowofela, 2022). SMEs need to be financially included to overcome such challenges.

The government can also play a complementary role, especially by providing alternative finance and a sound regulatory framework to support financial inclusion. It has been established that a poor regulatory framework is a factor preventing SMEs from benefiting fully from financial inclusion (Khan & Ali, 2021). Rapid expansion of digital financial services and fintech innovations has dramatically altered Nigeria's financial inclusion landscape over the past decade. Financial inclusion, referred as the availability and equality of opportunities to access financial services, has emerged as a pivotal policy instrument for addressing these constraints and enhancing SME performance in developing economies (Kumar et al., 2022). In an effort to mitigate the exclusivity issue, the CBN launched the National Financial Inclusion Strategy in 2012, revised in 2018, which set a target to reduce financial exclusion to 20%.

Similarly, the government has been supporting SMEs through its agencies, especially the CBN, Bank of Industry (BoI) and SMEDAN, by providing long- and short-term financing at concessionary rates as well as non-financial support. For example, the N220 billion Micro, Small and Medium Enterprises Development Fund (MSMEDF) at a single-digit interest rate. It is therefore pertinent to investigate the

intervention by government to enhance SME performance and growth because even with these interventions, SMEs still struggle to survive. Research that explicitly examines how government support moderates' financial inclusion effects on SMEs' performance is important, as it would provide policy-relevant insights for improving programme design and implementation in weak institutional environments like Nigeria.

A practical problem (gap) exists concerning financial inclusion (access to finance) that will affect the performance of SMEs. It reported that the major challenge for SMEs is access to finance, with a substantial financing gap estimated at \$32.2 billion, which severely limits the performance and growth potential of SMEs (PricewaterhouseCoopers, 2024)

As important as the impact of financial inclusion on SMEs' performance, there exist inconsistent results which create a knowledge, theory and contextual gap to be filled. When several studies that have been conducted indicate a positive and significant relationship (Nasution et al., 2024; Thathsarani & Jianguo, 2022; Fomum & Opperman, 2023; Mapac et. al., 2024; Oyewale, & Alabi, 2024; Efan et. al., 2022; Hasanudin & Panigfat, 2024; Rahmajati & Kusuma, 2023; Akande et. al., 2023; Sambo & Idris, 2021). Other studies established a non-significant relationship (Sugih & Fitriyah, 2024; Graha et. al., 2023; Mutiara et. al., 2024; et. al., 2024; Budiyo, et. al., 2023). This justifies the introduction of a moderating variable as suggested by Baron and Kenny (1986). Interestingly, Barokah et al. (2024) suggested that, government support should be tested as a moderate variable to see the extent it can strengthen the relationship between financial inclusion and SMEs' performance.

Likewise, most commonly used theories are the resource-based theory and institutional theory (Ibrahim et. al. 2016; Zulu-Chisanga et. al., 2020; Pergelova & Angulo-Ruiz, 2014). This proposed model merged an Integrated Institutional-Resource Signal (IIRS) framework using three theories to explain the moderating role of government support on the financial inclusion-SME performance relationship. Among the theories is signal theory; researchers really use it in this context; therefore, it will be a theoretical contribution to explain the conceptual framework.

2. Literature review

Conceptual Review

SMEs Performance

According to the Central Bank of Nigeria (CBN, 2024) website, Small and Medium Enterprises (SMEs) are defined as any entities with employees between 11 and 200 with an asset base of up to N5 million and not more than N500 million (excluding buildings & landed properties).

Performance in relation to Small and Medium-sized Enterprises (SMEs), is a multidimensional concept encompassing financial and non-financial aspects. It serves as a measure of an organisation's ability to achieve its goals, deliver value, and maintain sustainability in a competitive environment. According to the Organisation for Economic Co-operation and Development (2023) SMEs' performance is defined as their ability to innovate, grow, and contribute to economic resilience, measured by financial outcomes and broader impacts like job creation.

Financial Inclusion

According to the World Bank Group (2014), Financial inclusion is the access to financial products and services, such as savings, credit, payments, and insurance, by all sections of society, particularly marginalised groups, at an affordable cost. This definition portrays the early conceptualisation of financial inclusion as a unidimensional construct. But Sarma (2008), argues that it is not enough to measure financial inclusion by just the number of bank accounts per 1000 adults or the number of bank

branches per 10,000 adults. Financial inclusion should involve more than just access, but the usage by the so-called 'banked' adults and the availability of financial services to users. Similarly, Financial inclusion is known to involve access, usage, and quality of financial services, ensuring that financial systems cater to the needs of all segments, especially low-income groups (Alliance for Financial Inclusion, 2010).

Recently, financial inclusion has become a concept with a multi-dimensional viewpoint. For Instance, Sarma (2008) proposes a three-tier index of measuring financial inclusion (i.e. Penetration, Availability and Usage). Notably, the key dimensions mostly recognised in the financial inclusion literature include accessibility, which refers to the availability of financial services such as banks, ATMs, POS, and mobile banking, especially in underserved areas. *Affordability* - cost of accessing financial products and services, particularly for low-income populations. *Usage* - Actual uptake and frequency of financial service use, reflecting effectiveness beyond mere availability. *Quality* - The extent to which financial services are suitable, reliable, and responsive to users' needs. This proposed model will consider financial inclusion proxied by access, usage and quality of financial services provided.

Government Support

Government support for SMEs is commonly regarded as public interventions in terms of policies, programs, instruments and institutions that aim to improve SMEs' access to resources, capabilities, markets or favourable rules and regulations to enhance their survival, growth, innovation, and broader economic objectives (Peter et. al. 2018). This definition is broad because it encompasses all the possible support/interventions altogether termed differently i.e. financial and non-financial, monetary and non-monetary, direct and indirect support (Park et. al. 2019).

The financial aspect, includes grants, subsidised loans, credit guarantees, tax incentives or rebates, and matching funds. The non-financial support includes regulatory/policy framework, infrastructure, market access and linkages, mentorship, business development service/advisory, training and capacity-building, and informational services. This kind of support strengthens managerial capabilities, improves the business environment, and facilitates market access, operational practice which can lead to issues like tax compliance (Uduak & Osunde, 2026).

Empirical Review

Financial inclusion and SME Performance

Improving SMEs' access to formal credit channels such as bank loans and microfinancing significantly impacts their ability to invest in expansion, technology, and human capital, ultimately leading to better performance, e.g., revenue growth, operational efficiency (Akinbuli & Adeyemi 2023; Khan & Ali, 2021). Togun et. al. (2022) conducted a study to find out if financial literacy can mediate the relationship between financial inclusion and the performance of SMEs registered with SMEDAN in Nigeria and have been operating for more than five years. The study report shows that financial inclusion has a significant positive effect on SMEs' performance.

Thatsarani and Jianguo (2022) researched Sri Lankan SMEs and established that financial inclusion significantly influences SMEs' performance. Furthermore, a study of Agro-based SMEs in Yobe state, Nigeria, on the effect of financial Inclusion, financial literacy on SMEs performance by Dandibi et. al. (2019) reveals that financial inclusion, proxied by availability, accessibility, affordability and usage of financial services, had a significant positive influence on agro-based SMEs. A survey of eleven selected banks using the dynamic panel analysis technique reveals that, access to financial services, service delivery and quality of products foster their performance measured by profitability (Khatib et. al., 2022). Several other studies have found financial inclusion to be significantly associated with the performance

of SMEs globally (Usman et. al 2024; Fomum & Opperman, 2023; Mapac et. al., 2024; Odetayo et. al., 2020; Oyewale, & Alabi, 2024; Efan et. al. 2022; Hasanudin & Panigfat, 2024; Rahmajati & Kusuma, 2023; Akande et. al., 2023).

On the contrary, studies were also conducted that found a non-significant effect of financial inclusion on SMEs' performance. For instance, Graha et. al. (2023) examined the effect of financial inclusion on SMEs' performance on 320 SMEs in Indonesia. The result shows an insignificant relationship between financial inclusion and SMEs' performance.

Government Support and SME Performance

Research on government support and SME performance has produced mixed findings. Peter et al. (2018) examined government financial support programmes and found that while support positively influenced SME financial performance, the magnitude of impact was constrained by implementation challenges, including inadequate funding, stringent bureaucratic requirements, and poor programme design. Agbim (2020) conducted qualitative research in South-Eastern Nigeria and found that SMEs that combined government policy support with financial inclusion and informal support networks achieved better performance outcomes, suggesting potential complementarities between different forms of support.

Studies have also highlighted significant challenges in government SME support programmes. Research indicates that many Nigerian SMEs are unaware of available government support schemes, face complex application procedures, experience long delays in fund disbursement, and encounter corruption in programme implementation (Lawal et. al., 2018). These implementation failures reduce the effectiveness of government interventions and may explain the modest or inconsistent effects observed in some empirical studies.

Moderating Effect of Government Support

A literature search reveals limited studies on government support programmes, remarkably few studies have explicitly examined government support as a moderating variable affecting SME performance with other independent variables. For instance, Park et. al (2019) examined the moderating effect of diagnostic and support services (non-financial support) on government support (financial support) and SME performance. The study used secondary data from the Small Business Corporation (SBC) database to sample 42, 261 Korean SMEs from 2006-2011. The result shows that government monetary support (loans) alone doesn't help them achieve higher annual assets and sales growth, but only when combined with government-based diagnostic support services. The finding indicates a gap; the importance of examining government support multidimensionally which this study proposed.

Nakkua et al. (2019) explores the impact of government support programs on the interrelationships between the dimensions of the Entrepreneurial Orientation (EO) and performance of SMEs using a sample 480 agro-based SMEs in Uganda. The result found both financial and non-financial GSPs have a moderating impact that can magnify the relationship between the variables. Similarly, Saberi (2018) the extent to which government of the Gulf Cooperation Council (GCC) countries play a moderating role in the relationship between entrepreneurship and economic growth. The result shows government support has a significant moderating effect on entrepreneurship and economic growth in the GCC.

Several studies have proposed a framework with government support as a moderating variable to test different relationships (Ibrahim et al., 2016; Akinloye, et. al., 2025). The available studies did not investigate the interplay between financial inclusion and performance of SMEs. This provides a bases for investigating such relationship.

Theoretical Framework

The theoretical foundation upon which government support can serve as a moderating variable in the financial inclusion-SME performance relationship is grounded in an Integrated Institutional-Resource Signaling (IIRC) Framework.

Institutional Theory

Institutional theory (Scott 2001) explains how organisations (i.e. SME) must conform to external (formal and informal) pressures from regulative, normative and cognitive institutions to gain legitimacy and resources. It also highlights the legitimacy and uncertainty reduction mechanisms of SMEs. The government, whose role involves providing a sound regulatory framework/policies, shapes the institutional environment in which SMEs operate. High institutional quality is directly associated with an increased level of financial inclusion (Zubair, 2025). Similarly, government-backed SMEs are viewed as more credible by financial institutions, which will create easy accessibility of financial services by SMEs that increases their productivity and growth (Levine, 2005).

Resource-Based Theory (RBT)

Resource-Based Theory (RBT) developed by Barney (1991) asserts that firms achieve sustained competitive advantage when they control resources that are valuable, rare, inimitable, and non-substitutable (VRIN) (Barney, 1991; Wernerfelt, 1984). Within this perspective, SMEs' heterogeneous access to and utilisation of resources, particularly financial resources, provides the foundation for explaining variation in performance outcomes across firms.

Access, usage and quality financial services enable firms to invest in productive assets, manage working capital efficiently, and respond to competitive pressures, thereby aligning with RBT's criterion that valuable resources support superior performance (Alasinrin & Li, 2022). Recent empirical studies in sub-Saharan Africa show that enhanced financial inclusion significantly correlates with improved SME performance through increased access to capital and improved financial quality (Akintayo et. al. 2025). Within the RBT framework, government support functions as a moderator that strengthens the relationship between financial inclusion and SME performance.

Signaling Theory

Signaling theory, originally developed by Spencer (1973) describes how actors transmit observable cues to reveal private information and how receivers interpret those cues to reduce uncertainty. Signaling theory posits that in markets with asymmetric information between dual players, i.e. the sender (SMEs), normally determines which critical information (i.e., the signal) to convey to the other player, i.e., the receiver (the money lenders) (Spencer, 1973; Connelly et al., 2011). Financial institutions normally lack full knowledge of SME quality.

SMEs that have accessed and used formal financial services like credit, loans, and guarantees send observable signals serving as a primary signal to money lenders (e.g. DMB, Microfinance banks) demonstrating creditworthiness, management capability, and reduced default risk, which positively influences performance metrics such as profitability and growth. Greater financial inclusion can improve access to finance which act both as an outcome of successful signaling by SMEs (Ullah et. al. 2021). When SMEs gain access to formal financial services, it signals to government and other stakeholders when they what to provide support that the firm has been vetted and deemed creditworthy by financial institutions.

Conceptual Framework

This conceptual model below, is drawn based on the backing of the three integrated theories selected that explain the proposed relationship between the study variables. The Resource-based View was used

to explain financial inclusion (independent variable). As SMEs gain access to adequate finance, used a qualitative financial service appropriately, it makes them achieve a rare competitive advantage over others. Since, these SMEs operate within an institutional/regulatory framework, the institutional theory is used to explain the role of government support (moderating variable) Whereas, performance of the SMEs serves as a signal to financial institutions to grant them the access to finance, and or the government to provide them with the necessary support they may require.

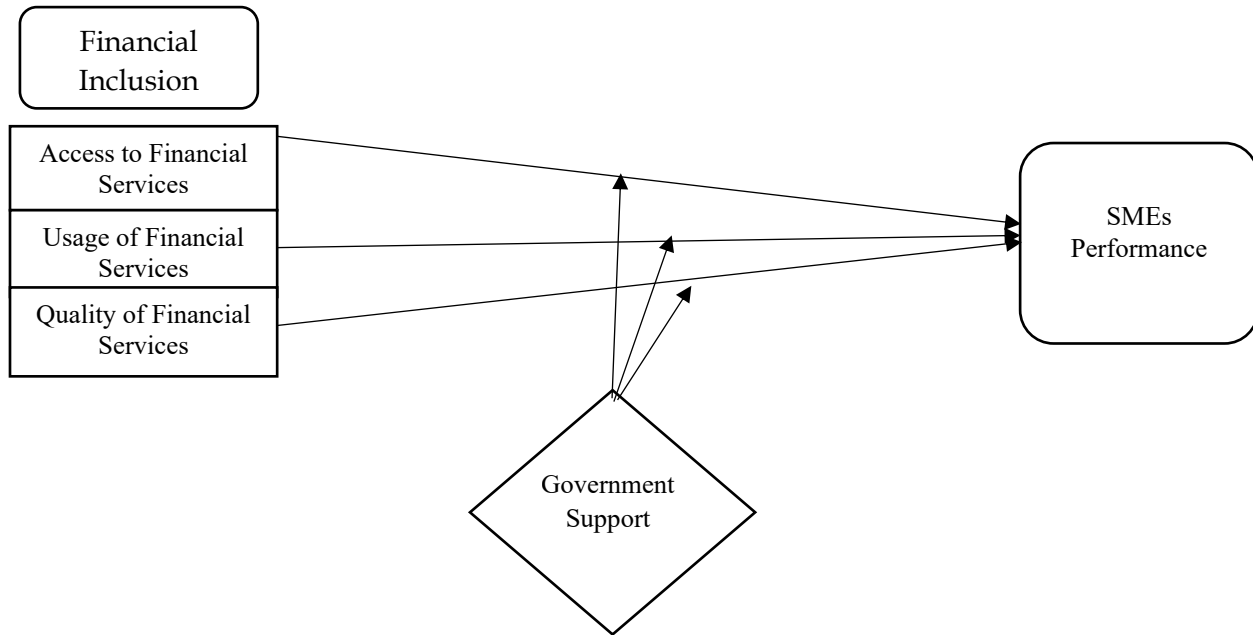


Fig. 1: Conceptual framework

Source: Researcher

3. Conclusion

The performance of SMEs is critical to Nigeria's economic development, employment generation, and poverty reduction objectives. While financial inclusion has emerged as a promising pathway for enhancing SME performance as signified by a positive relationship, the translation of financial access into tangible performance outcomes is neither automatic nor uniform. Government support represents a potentially important moderating factor that may amplify or attenuate the effects of financial inclusion, yet this moderation relationship remains underexplored in the empirical literature, particularly in the Nigerian context.

Grounded in established theoretical frameworks, including institutional theory, RBV theory, and signalling theory and informed by empirical evidence from Nigeria and comparable developing economies. The study will provide much-needed evidence on the conditions under which financial inclusion and government support interventions are most effective. In doing so, it will contribute to both academic understanding and practical policy design, ultimately supporting efforts to enhance the performance, resilience, and contribution of Nigerian SMEs to sustainable economic development.

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