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Impact of Economic Policies on the Performance of Small and Medium-Scale Enterprises in Ugep, Cross River State, Nigeria

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ABSTRACT

This study examines how key macroeconomic policy frameworks—specifically interest rate policy, infrastructure development, and performance-based incentives—affect the operations and growth of small and medium-sized enterprises (SMEs) in Ugep, Cross River State, Nigeria. SMEs constitute approximately 96.9% of registered businesses in Nigeria, contributing nearly 48% of GDP and employing about 87.9% of the national workforce. Despite this strategic significance, many SMEs experience poor performance, limited growth, and premature failure. Using a descriptive survey research design, primary data were gathered from 72 small and medium-scale business operators selected from a target population of 100 registered enterprises through simple random sampling. The research instrument demonstrated high reliability (Cronbach's Alpha = 0.84). Data were analyzed using descriptive statistics and Chi-square tests. The findings reveal that interest rate policy significantly affects SME performance ($\chi^2 = 15.31$, df = 4, $p < 0.05$), infrastructure development policies significantly influence operational outcomes ($\chi^2 = 25.01$, df = 4, $p < 0.05$), and performance incentives significantly impact business outcomes ($\chi^2 = 24.87$, df = 4, $p < 0.05$). The study concludes that government economic policies serve as a primary structural driver for the expansion, performance, and long-term survival of small enterprises. Practical recommendations include establishing concessionary interest frameworks, targeted infrastructural funding for semi-urban areas, and designing accessible incentive schemes tailored to SME capacities.

Keywords: Economic policy, Interest rate, Small and medium enterprises, Infrastructural development, Nigeria.

INTRODUCTION

Background of the Study

Small and Medium Enterprises (SMEs) form the backbone of Nigeria's economy, accounting for approximately 96.9% of all registered businesses, contributing nearly 48% of Gross Domestic Product (GDP), and employing about 87.9% of the national workforce (Central Bank of Nigeria, 2026). With an estimated 40 million SMEs operating across the country, the performance of these enterprises has direct implications for job creation, poverty reduction, and inclusive economic growth. Despite this strategic significance, Nigerian SMEs face persistent structural challenges that constrain their growth, productivity, and survival, with over 50% failing within their first year and more than 95% failing within five years of establishment (Central Bank of Nigeria, 2026).

The policy environment has historically shaped SME outcomes through fiscal, monetary, and regulatory instruments. A comprehensive policy review examining the 2021-2025 SME policy cycle found that the central problem confronting the sector is not the absence of government support but rather the limited effectiveness of policy interventions in addressing systemic constraints (Ayodele et al., 2025). Key barriers identified include limited access to affordable long-term financing, weak infrastructure systems (particularly

unreliable electricity and poor logistics networks), high enterprise informality, low technological adoption, and a complex regulatory environment characterised by multiple tax obligations (Gaddafi et al., 2026; Usman et al., 2026).

Since May 2023, Nigeria has undergone intensive economic reforms including the immediate removal of petrol subsidies, unification of foreign exchange rates, and significant monetary tightening. These reforms, intended to enhance long-term budgetary stability and market efficiency, have triggered a multifaceted crisis for SMEs. The pump price of petrol more than tripled overnight, the naira depreciated sharply from approximately N460/$1 to over N1,600 per dollar, headline inflation soared to 34.8% by December 2024—Nigeria's highest in nearly three decades—and food inflation exceeded 40% (Oyedele, 2025). Business owners report escalating operational expenses, disrupted supply chains, and diminished consumer demand. The Nigeria Employers' Consultative Association noted that despite improvements in some macroeconomic indicators, enterprises continue to contend with high energy costs, persistent inflation, exchange rate volatility, multiple taxation, infrastructure deficits, and weak consumer purchasing power, with SMEs bearing the brunt of the adjustment process (Oga, 2025).

Taxation policy, a critical fiscal instrument, presents a particular burden for Nigerian SMEs. The FATE Institute's 2023 report, surveying 10,377 businesses, found that 55% of nano, micro, and small businesses pay taxes, mainly to state agencies, with some businesses paying as many as 36 different taxes to non-state actors, state, and local governments (Umeneke, 2024). Empirical research examining tax policies in Anambra State found that direct tax policy has a significant negative effect on financial sustainability of SMEs ($\beta = -0.218$, $p = .001$), while indirect tax policy also shows a significant negative effect ($\beta = -0.472$, $p = .000$) (Ogunjobi et al., 2024). Conversely, tax reliefs demonstrate a significant positive effect on SME sustainability ($\beta = 0.129$, $p = .038$), suggesting that when businesses receive tax-related financial breathing room, they are better positioned to reinvest profits, expand operations, and improve long-term survival (Hashidu et al., 2025).

Despite these insights, significant research gaps remain. Existing studies have not fully captured how specific policy instruments interact with firm-level characteristics and institutional contexts to influence SME outcomes. The persistence of informality, the burden of multiple taxation, and the recent macroeconomic shocks all underscore the urgency of systematic investigation. As Nigeria prepares to develop its next SME policy framework covering 2026-2030, understanding the impact of economic policies on SME performance is essential for designing evidence-based interventions that can transform millions of small enterprises from survival-oriented operations into drivers of sustainable economic growth.

Statement of the Problem

Small and medium-scale enterprises constitute an important component of Nigeria's economy through their contributions to employment generation, income creation, innovation, poverty reduction, and local economic development. Despite their significance, many SMEs continue to experience poor performance, limited growth, and premature business failure. Their operations are constrained by inadequate infrastructure, limited access to affordable finance, high operating costs, multiple taxation, regulatory burdens, unstable government policies, and a difficult macroeconomic environment. Although successive Nigerian governments have introduced policies and intervention programmes to promote SME development, the persistence of these challenges raises questions about the effectiveness and implementation of existing policies (Ezeilo & Chukwuma, 2024; Umenzekwe et al., 2025).

The major policy problem is the apparent gap between SME policy formulation and actual outcomes at the enterprise level. Government interventions are often designed to improve access to finance, infrastructure, markets, and business support services; however, many SME operators continue to encounter regulatory difficulties, multiple levies, inadequate electricity supply, poor transportation networks, and limited institutional support. For instance, Orji and Osang (2024) found that infrastructure, particularly electricity and road networks, significantly influenced aspects of SME performance in Calabar Metropolis. Similarly, Umenzekwe et al. (2025) reported that activities associated with government business-policy implementation, including inappropriate taxation and regulatory practices, could affect SME profitability.

An additional problem is the inconsistency of empirical findings concerning the factors influencing SME performance in Nigeria. While some studies have established significant relationships between infrastructure, taxation, government policies, finance, and enterprise performance, other studies have reported weak or insignificant relationships. For example, Orji and Osang (2024) found significant effects of electricity and road infrastructure on SME outcomes but reported an insignificant effect of taxation on performance.

There is also a geographical and contextual gap evident in the literature. Existing studies have frequently focused on selected locations such as Lagos, Calabar Metropolis, and Awka South and other major cities in Nigeria (Ajayi & Hassan, 2025; Orji & Osang, 2024; Umenzekwe et al., 2025). Findings from these locations may not necessarily represent the experiences of SMEs across Nigeria because business environments differ considerably in terms of infrastructure, taxation, access to finance, market opportunities, institutional support, and economic activities. The operating conditions of an SME in a major commercial centre may therefore differ substantially from those of an enterprise in a semi-urban or rural environment.

The persistence of these problems demonstrates the need for further empirical investigation into the factors affecting SME performance in Nigeria. More specifically, there is a need to determine whether existing government policies are achieving their intended objectives, identify the factors responsible for the inconsistent performance of SMEs, and establish how policy, infrastructural, financial, and regulatory conditions interact to influence enterprise outcomes.

Objectives of the Study

The primary objective of this study is to analyze the impact of economic policies on the performance of selected small and medium-scale enterprises in Ugep, Cross River State, Nigeria. The specific objectives are:

1. To evaluate the extent to which interest rate policy affects the performance of small and medium businesses.
2. To ascertain the impact of infrastructural development policies on the operational outcomes of these enterprises.
3. To determine how performance rewards and incentives influence small business outcomes in the study area.

Research Questions

1. To what extent does interest rate policy affect the performance of selected small businesses?
2. How do infrastructure development policies impact the performance of small-scale businesses?
3. To what extent do performance rewards influence small business outcomes?

Research Hypotheses

The following null hypotheses (H_0) were formulated to be tested at a 5% (0.05) level of significance:

- **H_{01}:** There is no significant relationship between interest rate policy and the performance of selected small businesses.
- **H_{02}:** There is no significant relationship between infrastructure development policies and the performance of small-scale businesses.
- **H_{03}:** There is no significant relationship between performance rewards and small-scale business outcomes.

Significance and Scope of the Study

This study contributes to the empirical literature surrounding organizational performance and micro-enterprise survival in sub-Saharan Africa. The findings offer localized data to assist business planners, regional administrators, and economic policymakers in formulating supportive frameworks. Geographically, the study focuses on selected small and medium enterprises operating within Ugep, Yakurr Local Government Area, Cross River State.

LITERATURE REVIEW

Conceptual Review

Concept of Small and Medium-Scale Enterprises

Small and medium-scale enterprises constitute an important segment of Nigeria's private sector and play a significant role in employment generation, income creation, entrepreneurship, innovation and economic development (Usman et al., 2026). SMEs are generally businesses operating on a relatively smaller scale than large corporations, with fewer employees, lower capital requirements, limited market coverage and relatively simple management structures. Their importance in Nigeria is particularly evident because they provide opportunities for self-employment and contribute to economic activities at both urban and rural levels (Oga, 2025).

The performance of SMEs depends considerably on the environment within which they operate. Access to affordable finance, infrastructure, government support, favourable regulations, market opportunities and managerial capabilities can determine whether an enterprise survives, expands or fails (Prasannath et al., 2024). Thus, understanding SME performance requires attention not only to factors internal to the enterprise but also to government policies and the broader economic environment.

Interest Rate Policy and SME Performance

Interest rate policy refers to measures through which monetary authorities influence the cost and availability of credit in an economy. In Nigeria, the Central Bank of Nigeria uses monetary policy instruments, particularly the Monetary Policy Rate (MPR), to influence financial conditions and consequently lending and borrowing activities. As of July 2026, the CBN reported that the MPR was retained at 26.5%, illustrating the importance of prevailing monetary conditions to the cost of credit available to businesses (Central Bank of Nigeria, 2026).

The relevance of interest rate policy to SMEs arises from their dependence on external finance for working capital, inventory acquisition, equipment purchase and business expansion (Fatoki et al., 2025). When lending rates are high, the cost of obtaining loans increases, potentially reducing the ability of small businesses to borrow and invest. Conversely, relatively affordable credit can enable enterprises to increase production, acquire productive assets and expand their operations.

Infrastructural Development Policies and SME Operational Outcomes

Infrastructure development refers to the provision, improvement and maintenance of facilities and services required to support economic activities. For SMEs, important infrastructure includes electricity, roads, transportation, telecommunications, internet connectivity, water supply and market facilities (Orji & Osang, 2024).

Infrastructure is particularly important to SMEs because inadequate infrastructure increases the cost of production and distribution. For example, unreliable electricity may force businesses to depend on generators and other alternative energy sources, thereby increasing operating expenses (Abdulrahman et al., 2017). Poor roads and transportation facilities can increase the cost and time involved in moving raw materials and finished products (Oyewumi, 2025).

Empirical evidence from Cross River State supports the importance of infrastructure to enterprise performance. Orji and Osang (2024), in a study of 370 micro and small enterprises in Calabar Metropolis, found that

electricity supply had a significant effect on profitability, while road infrastructure significantly affected product and service delivery.

Performance Rewards and Incentives

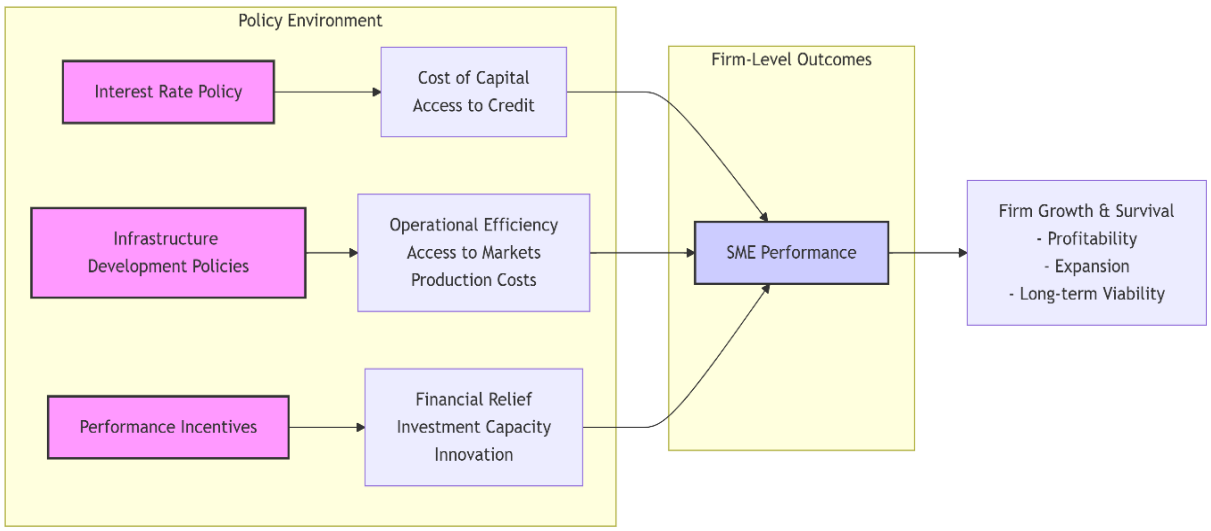
Performance rewards and incentives refer to financial and non-financial benefits provided to encourage individuals or businesses to achieve predetermined objectives. In the SME environment, incentives may include grants, subsidised credit, tax reliefs, training opportunities, awards, business development support and preferential access to government programmes (Lynch et al., 2026).

The theoretical argument underlying incentives is that individuals and organisations are more likely to pursue desirable outcomes when there are tangible benefits associated with improved performance (Prasannath et al., 2024). Government incentives can therefore reduce the financial burden faced by SMEs and encourage investment, innovation, employment generation and expansion. However, the effectiveness of incentives depends on their accessibility, transparency, adequacy and proper implementation.

Conceptual Framework: The Policy-Performance Nexus

To clarify the expected relationships in this study, a conceptual framework is developed, illustrating how the independent variables (Interest Rate Policy, Infrastructure Development Policies, and Performance Incentives) are hypothesized to influence the dependent variable (SME Performance). The framework posits that the formal institutional environment, as shaped by government policies, directly impacts the operational capacity and growth trajectory of SMEs.

Figure 1: Conceptual Framework for the Impact of Economic Policies on SME Performance



- **Interest Rate Policy vs SME Performance:** High-interest rates increase the cost of borrowing and debt servicing, reducing net profits and discouraging investment in working capital or expansion. Conversely, lower rates improve cash flow and incentivize investment, leading to growth (Fatoki et al., 2025; Hashidu et al., 2025).

- **Infrastructure Development Policies vs SME Performance:** Reliable electricity, good roads, and accessible water reduce operational costs (e.g., self-generation, logistics), improve supply chain efficiency, and enable businesses to reach wider markets, thereby enhancing productivity and profitability (Orji & Osang, 2024; Abdulrahman et al., 2017).

- **Performance Incentives vs SME Performance:** Government grants, tax reliefs, and subsidized training provide financial breathing room and resources for small businesses. These incentives can reduce the tax

burden, encourage formalization, and allow for reinvestment in modernization, innovation, and expansion (Prasannath et al., 2024; Lynch et al., 2026).

Operational Definition of Variables

To ensure clarity and measurement consistency, the key variables in this study are operationally defined as follows:

Independent Variables:

- **Interest Rate Policy:** Refers to the monetary policy stance set by the Central Bank of Nigeria, as perceived by SME owners, influencing the cost of borrowing. It is measured by SME operators' perceptions of how interest rates affect their financial burden, ability to obtain loans, profitability, and willingness to invest. (Measured using items 1-4 in Table 3).
- **Infrastructure Development Policies:** Refers to government actions and investments in public utilities and facilities. It is measured by SME operators' perceptions of the quality and adequacy of electricity supply, road networks, water supply, and telecommunications, and how these affect their operational efficiency and costs. (Measured using items 1-4 in Table 4).
- **Performance Incentives:** Refers to government-provided financial and non-financial rewards aimed at encouraging business growth and compliance. It is measured by SME operators' perceptions of the accessibility and impact of grants, tax reliefs, recognition programmes, and support schemes on their business performance. (Measured using items 1-4 in Table 5).

Dependent Variable:

- **SME Performance:** Refers to the operational and financial outcomes of a small or medium-scale enterprise. For this study, it is measured through proxy indicators of performance, including the business's perceived profitability, productivity, market access, growth (expansion), and overall financial sustainability, as reported by business owners and managers.

Theoretical Framework

Institutional Theory

Institutional Theory provides the theoretical foundation for examining the impact of economic policies on SME performance. The theory, as developed by North (1990) and Scott (2008), is concerned with how organisations are influenced by the formal and informal institutions within their operating environment. These institutions include government laws, regulations, policies, administrative procedures, social expectations, norms and established practices.

Institutional Theory was selected as the primary theoretical framework for this study for several compelling reasons. First, the independent variables under investigation – interest rate policy, infrastructure development policies, and performance incentives are all institutionally determined. Interest rates are set by the Central Bank of Nigeria; infrastructure provision is a function of government investment and regulation; and performance incentives are typically designed and implemented by government agencies (Gaddafi et al., 2026). Thus, these variables represent the institutional environment within which SMEs operate.

Second, Institutional Theory explicitly addresses how organisations respond to the rules, norms, and expectations of their external environment. This is particularly relevant to SMEs in Ugep, where formal and informal institutions create both opportunities and constraints for business operations (Ajayi & Hassan, 2025). Third, while alternative theories offer useful insights, they are less directly applicable to the policy-SME nexus. The Resource-Based View focuses on internal firm capabilities, which is insufficient for understanding the impact of external policy variables.

From an institutional perspective, the issue is not simply whether credit exists, but whether the institutional arrangements governing access to credit make it reasonably accessible to small businesses. Similarly, government infrastructure policy forms part of the external environment that determines the opportunities and constraints confronting SMEs. Institutional Theory also suggests that government incentives can shape business behaviour by creating rewards for desirable economic activities.

Empirical Review

Empirical research provides considerable evidence that financial conditions, infrastructure and government interventions influence SME performance, although the strength of these relationships differs across locations and studies.

Orji and Osang (2024) investigated infrastructure, taxation and the performance of micro and small enterprises in Calabar Metropolis. Using a survey of 370 enterprises and chi-square analysis, they found that electricity supply significantly affected profitability and that road infrastructure significantly affected product and service delivery. However, taxation did not have a statistically significant effect on the performance measure examined.

Abdulrahman et al. (2017) examined the effect of electricity service quality on the financial and non-financial performance of manufacturing SMEs in Nigeria. Using questionnaire data obtained from 201 SME managers and owner-managers, the researchers found that electricity service quality accounted for a substantial proportion of variations in SME performance.

Research on SME financing also demonstrates the relevance of monetary conditions. Oyedele (2025) found that interest rates and inflation jointly accounted for significant variations in SME profitability across Nigeria. Nigerian SMEs frequently face difficulties obtaining affordable formal credit because of high lending costs, collateral requirements and perceived lending risks.

Evidence concerning government incentives further suggests that financial and non-financial support can strengthen enterprise capabilities. Studies of Nigerian SMEs have examined monetary and non-monetary rewards and their relationship with entrepreneurial behaviour and enterprise financial performance (Lynch et al., 2026). Umenzekwe et al. (2025) reported that innovation had a significant positive effect on SME performance, while also noting that financial constraints and limited technological infrastructure could restrict the ability of Nigerian SMEs to exploit innovative opportunities.

Synthesis of the Literature and Research Gap

The reviewed literature establishes that SMEs are important contributors to economic activity and that their performance is strongly connected to the business environment in which they operate. Three major factors are particularly relevant to the present study: interest-rate policy, infrastructural development policies, and performance rewards and incentives.

Despite these contributions, a contextual and empirical gap remains. Existing studies have examined infrastructure, taxation, finance and government support in different Nigerian locations, including Calabar and other urban centres, but relatively little empirical attention has been directed specifically at SMEs in Ugep, Cross River State. Moreover, the three dimensions examined in this study are often examined separately rather than within a common framework. The present study therefore seeks to fill this gap by providing location-specific evidence on how these policy dimensions affect small and medium businesses in Ugep.

RESEARCH METHODOLOGY

Research Design

This study adopted a descriptive survey research design. A descriptive survey design is appropriate because it

allows the researcher to obtain information directly from respondents regarding their opinions, experiences, and perceptions about how interest rate policy affects the performance of small and medium-scale enterprises.

Area of the Study

The study was conducted in Ugep, Yakurr Local Government Area, Cross River State, Nigeria. Ugep is one of the major towns in Cross River State, with many small and medium-scale enterprises. The town serves as the administrative headquarters of Yakurr LGA and provides an important commercial link between Yakurr and neighbouring local government areas.

Population and Sample

The target population for this study comprised all **100 registered** business owners and managers operating within Ugep, Yakurr Local Government Area, Cross River State. These businesses were drawn from various sectors, including retail shops, supermarkets, pharmacies, restaurants, hotels, fashion stores, printing businesses, and POS operators.

To ensure a representative sample, the **Taro Yamane formula** was applied with a 95% confidence level and a 5% margin of error: $n = N / [1 + N(e)^2] = 100 / [1 + 100(0.05)^2] = 80$. A sample size of 80 respondents was deemed adequate for statistical analysis.

The **simple random sampling technique** was employed. This technique gives every member of the target population an equal and independent chance of being selected, thereby reducing selection bias. The researcher obtained a list of registered businesses from the local trade association and selected 80 business owners randomly from this list.

Instrument for Data Collection

The primary data collection instrument was a **structured questionnaire** titled "Economic Policy and SME Performance Questionnaire (EPSMEQ)." The questionnaire was divided into two sections:

Section A: Gathered demographic information of respondents, including gender, age, educational qualification, business type, and years in operation.

Section B: Contained **16 items** designed to measure the study variables based on a 5-point Likert scale (Strongly Agree = 5, Agree = 4, Undecided = 3, Disagree = 2, Strongly Disagree = 1). This section was sub-divided into four constructs:

- **Interest Rate Policy (4 items):** Assessed perceptions of borrowing costs and their impact on business viability.
- **Infrastructure Development Policies (4 items):** Evaluated the adequacy of electricity, roads, and water, and their effect on operational costs.
- **Performance Incentives (4 items):** Measured the awareness and impact of government grants, tax reliefs, and other support schemes.
- **SME Performance (4 items):** Gauged perceived outcomes such as profitability, growth, and sustainability.

Validity and Reliability

Validity: The face and content validity of the questionnaire were established through a review process. The instrument was submitted to two senior academics from the Department of Business Administration and Management who are experts in SME research. They assessed the clarity, relevance, and comprehensiveness of the items. Feedback was incorporated to improve the wording and ensure the questionnaire adequately covered the constructs under investigation.

Reliability: To assess the internal consistency of the instrument, a pilot study was conducted with **20 business owners** operating in a location outside the study area (Ikom, Cross River State) who were not part of the main sample. The data from the pilot test were analyzed using **Cronbach's Alpha coefficient**.

As shown in Table 1, the overall reliability coefficient was **0.84**, which exceeds the widely accepted threshold of 0.70 (Nunnally & Bernstein, 1994). The individual construct alphas also demonstrated high reliability, ranging from 0.81 to 0.87. This confirms that the instrument was reliable for use in the main study.

Table 1: Cronbach's Alpha Reliability

Construct	Number of Items	Cronbach's Alpha
Interest-rate policy	4	0.81
Infrastructure policy	4	0.83
Performance incentives	4	0.85
SME performance	4	0.87
Overall	**16**	**0.84**

Method of Data Collection and Analysis

Method of Data Collection

The researchers personally administered the questionnaires to the selected respondents with the assistance of two trained research assistants. The data collection process was conducted over a period of two weeks. To maximize the response rate, the researchers visited the business premises of the respondents during working hours. Each respondent was given a brief explanation of the study's purpose and was assured of the confidentiality of their responses. Respondents were given time to complete the questionnaires, and the researchers were present to clarify any ambiguities.

Ethical Considerations: The researchers adhered to standard ethical protocols. Firstly, informed consent was obtained from all participants; they were fully informed about the purpose of the research and their right to withdraw at any time without penalty. Secondly, the anonymity and confidentiality of respondents were guaranteed, as the questionnaire did not request names or specific company identifiers. Thirdly, participants were assured that the data would be used exclusively for academic research purposes. The research was conducted with respect for the local community and business owners.

Method of Data Analysis

Data analysis was performed using SPSS (Statistical Package for Social Sciences) version 25.0. The analysis involved two primary methods:

1. **Descriptive Statistics:** Frequency counts, percentages, and mean scores were used to summarize the demographic data and to answer the research questions by analyzing the respondents' perceptions on the Likert scale. A mean score of 3.50 and above was considered as "Agreed" (positive perception).

2. **Inferential Statistics:** The **Chi-square (χ^2) test** was employed to test the formulated hypotheses at a 0.05 level of significance. The chi-square test is appropriate for determining if there is a significant association between categorical variables (responses to Likert scale items were treated as categorical). The calculated chi-square value was compared to the critical value with 4 degrees of freedom at $\alpha = 0.05$ (critical value = 9.488) to either accept or reject the null hypotheses.

RESULTS AND FINDINGS

Response Rate

Out of the 80 questionnaires distributed, 72 copies were properly completed and returned, while 8 copies were

either not returned or were incomplete. The analysis is based on the 72 valid questionnaires, representing a response rate of 90.0%, which is considered adequate.

Demographic Characteristics of Respondents

Table 2: Demographic Profile of Respondents

Variable	Category	Frequency	Percentage (%)
Gender	Male	38	52.5
	Female	34	47.5
Age Group	20-29 years	12	16.7
	30-39 years	24	33.3
	40-49 years	22	30.6
	50 years and above	14	19.4
Education	SSCE/GCE	8	11.1
	ND/NCE	24	33.3
	HND/Bachelor's Degree	28	38.9
	Postgraduate Degree	12	16.7
Business Type	Retail/Provision Stores	14	19.4
	Supermarkets	12	16.7
	Banking/POS Services	12	16.7
	Printing/Business Centre	10	13.9
	Fashion and Clothing	10	13.9
	Restaurants/Hotels	8	11.1
	Pharmacy	6	8.3
Years in Operation	Less than 2 years	12	16.7
	2-5 years	24	33.3
	6-10 years	20	27.8
	11 years and above	16	22.2

Source: Field Survey, 2026.

Analysis of Research Questions

A 5-point Likert scale was employed with Strongly Agree (SA) = 5, Agree (A) = 4, Undecided (U) = 3, Disagree (D) = 2, and Strongly Disagree (SD) = 1. A mean score of 3.50 and above was regarded as Agreed.

Research Question 1: Effect of Interest Rate Policy on SME Performance

Table 3: Responses on Interest Rate Policy

S/N	Questionnaire Item	SA	A	U	D	SD	Total Weighted Score (FX)	Mean	Decision
1	High interest rates on business loans increase the financial burden of small businesses.	24	20	12	6	10	258	**3.58**	Agree
2	Changes in interest rates affect the ability of small businesses in Ugep to obtain loans for business expansion	24	19	11	10	8	257	**3.57**	Agree
3	High interest rates reduce the profitability and overall performance of small businesses in Ugep.	26	17	8	12	9	255	**3.54**	Agree
4	Lower and affordable interest rates encourage small businesses in Ugep to invest in business expansion and improve their performance	25	22	10	8	7	266	**3.69**	Agree
	Grand Mean							**3.60**	**Agree**

Research Question 2: Impact of Infrastructure Development Policies

Table 4: Responses on Infrastructure Development Policies

S/N	Questionnaire Item	SA	A	U	D	SD	Total Weighted Score (FX)	Mean	Decision
1	Improved electricity supply enhances the productivity and performance of small-scale businesses in Ugep.	26	20	12	8	6	268	**3.72**	Agree
2	Good road infrastructure makes	25	22	8	10	7	264	**3.67**	Agree

	it easier for small-scale businesses in Ugep to transport goods and access markets								
3	Improved water supply and other basic infrastructure reduce the operating costs of small-scale businesses in Ugep.	24	20	8	12	8	256	**3.56**	Agree
4	Government investment in infrastructure development contributes significantly to the growth and profitability of small-scale businesses in Ugep.	25	19	10	12	6	261	**3.63**	Agree
	Grand Mean							**3.65**	**Agree**

Research Question 3: Influence of Performance Rewards and Incentives

Table 5: Responses on Performance Rewards and Incentives

S/N	Questionnaire Item	SA	A	U	D	SD	Total Weighted Score (FX)	Mean	Decision
1	Government performance-based grants and financial incentives improve the productivity of small businesses in Ugep.	28	20	11	7	6	273	**3.79**	Agree
2	Performance rewards and incentives encourage small businesses in Ugep to expand their operations.	23	22	12	7	8	261	**3.63**	Agree
3	Government recognition and support programmes motivate small business owners to improve their	24	23	10	8	7	265	**3.68**	Agree

	business performance.								
4	Performance rewards and incentives contribute to improved profitability and growth of small businesses in Ugep.	22	23	10	12	5	261	**3.63**	Agree
	Grand Mean							**3.68**	**Agree**

Hypothesis Testing

The hypotheses were tested using the Chi-square (χ^2) statistical technique at a 0.05 level of significance. The degrees of freedom (df) = 4, and the critical value at $\alpha = 0.05$ is 9.488. The expected frequency (E) was calculated as 72/5 = 14.4.

Hypothesis One (H_{01}): Interest Rate Policy and SME Performance

Table 6: Chi-Square Test for Hypothesis One

Response	**O**	**E**	**(O-E)**	**$(O-E)^2$**	**$(O-E)^2/E$**
Strongly Agree	24	14.4	9.6	92.16	6.40
Agree	20	14.4	5.6	31.36	2.17
Undecided	12	14.4	-2.4	5.76	0.40
Disagree	6	14.4	-8.4	70.56	5.04
Strongly Disagree	10	14.4	-4.4	19.36	1.34
Total	**72**	**72**			**$\chi^2 = 15.31$**

Calculated χ^2 (15.31) > Critical value (9.488) → **Reject H_{01}**

Conclusion: There is a statistically significant relationship between interest rate policy and SME performance.

Hypothesis Two (H_{02}): Infrastructure Development Policies and SME Performance

Table 7: Chi-Square Test for Hypothesis Two

Response	**O**	**E**	**(O-E)**	**$(O-E)^2$**	**$(O-E)^2/E$**
Strongly Agree	26	14.4	11.6	134.56	9.34
Agree	20	14.4	5.6	31.36	2.17
Undecided	12	14.4	-2.4	5.76	0.4

Disagree	8	14.4	-6.4	40.96	2.84
Strongly Disagree	6	14.4	-8.4	70.56	4.9
Total	**72**	**72**			**χ^2 = 25.01**

Calculated χ^2 (25.01) > Critical value (9.488) → **Reject H_{02}**

Conclusion: There is a statistically significant relationship between infrastructure development policies and SME performance.

Hypothesis Three (H_{03}): Performance Rewards and SME Outcomes

Table 8: Chi-Square Test for Hypothesis Three

Response	**O**	**E**	**(O-E)**	**$(O-E)^2$**	**$(O-E)^2/E$**
Strongly Agree	28	14.4	13.6	184.96	13.2
Agree	20	14.4	5.6	31.36	2.17
Undecided	11	14.4	-3.4	11.56	0.8
Disagree	7	14.4	-7.4	54.76	3.8
Strongly Disagree	6	14.4	-8.4	70.56	4.9
Total	**72**	**72**			**χ^2 = 24.87**

Calculated χ^2 (24.87) > Critical value (9.488) → **Reject H_{03}**

Conclusion: There is a statistically significant relationship between performance rewards and SME outcomes.

Table 9: Summary of Hypothesis Testing

Hypothesis	**Chi-Square Value**	**df**	**Critical Value**	**Decision**	**Interpretation**
H_{01} (Interest Rate Policy)	15.31	4	9.488	Reject	Significant relationship
H_{02} (Infrastructure Policies)	25.01	4	9.488	Reject	Significant relationship
H_{03} (Performance Incentives)	24.87	4	9.488	Reject	Significant relationship

DISCUSSION OF FINDINGS

Interest Rate Policy and SME Performance

The findings confirm a statistically significant relationship between interest rate policy and SME performance (grand mean = 3.60; χ^2 = 15.31, $p < 0.05$). This finding is consistent with the broader Nigerian literature. Fatoki et al. (2025) found that fiscal policies significantly influence profitability. A quantitative study of 384 SME owners across Nigeria using Ordinary Least Squares regression established that high interest rates negatively impact business success (Hashidu et al., 2025). Research on SMEs in Kwara State using Partial Least Squares Structural Equation Modeling confirmed that interest rate fluctuations have a negative impact on SME growth and sustainability (Usman et al., 2026).

The significance of this finding can be explained through Institutional Theory. In Ugep, where formal credit markets are less developed than in major urban centres, SMEs are particularly vulnerable to monetary policy changes because they lack alternative financing sources. When interest rates are high, the transaction costs of

borrowing increase substantially, reducing the willingness and ability of SME owners to seek formal credit. This aligns with research by Oyedele (2025), who found that interest rates and inflation jointly accounted for significant variations in SME profitability across Nigeria.

Infrastructure Development and SME Performance

The findings confirm that infrastructure development policies directly affect small business performance in Ugep (grand mean = 3.65; $\chi^2 = 25.01$, $p < 0.05$). Inadequate power supply and deteriorating road networks impose a severe operational tax on local firms, driving up self-generation costs and complicating transport logistics. This finding aligns with Orji and Osang (2024), who found that electricity supply had a significant effect on profitability, while road infrastructure significantly affected product and service delivery. Similarly, Abdulrahman et al. (2017) found that electricity service quality accounted for a substantial proportion of variations in SME performance.

From an Institutional Theory perspective, government infrastructure policy forms part of the external environment that determines the opportunities and constraints confronting SMEs. Where public infrastructure is inadequate, SMEs must provide alternative arrangements at their own expense, creating a double burden of direct operational inefficiencies and additional costs.

Performance Incentives and SME Outcomes

The findings confirm that performance rewards and incentives significantly influence SME outcomes (grand mean = 3.68; $\chi^2 = 24.87$, $p < 0.05$). This finding is consistent with Prasannath et al. (2024), who found that government support policies can influence SME performance through financial and non-financial mechanisms. The significance of performance incentives can be understood through Institutional Theory, which suggests that government incentives can shape business behaviour by creating rewards for desirable economic activities.

This observation is particularly relevant to Nigeria. A 2025 systematic review of Nigerian government policies reported that several SME policies had not fully achieved their intended objectives because of inadequate regulatory reforms, bureaucratic difficulties, limited capacity building and restricted market access (Ayodele et al., 2025). Similarly, Umenzekwe et al. (2025) examined government business-policy implementation agents in Nigeria and reported that inappropriate implementation practices, including illegal taxes and regulatory practices, can affect SME profitability.

CONCLUSION AND RECOMMENDATIONS

Summary of Findings

This study evaluated the relationship between macroeconomic policies and the performance of selected small-scale businesses within Ugep, Cross River State, Nigeria. The key findings are:

Interest Rate Policy: There is a statistically significant relationship between interest rate policy and SME performance ($\chi^2 = 15.31$, $p < 0.05$). High interest rates negatively affect business performance by increasing the cost of borrowing, reducing profitability, and discouraging investment in business expansion.

Infrastructure Development: There is a statistically significant relationship between infrastructure development policies and SME performance ($\chi^2 = 25.01$, $p < 0.05$). Inadequate electricity, poor road networks, and limited water supply increase operating costs, reduce productivity, and limit market access.

Performance Incentives: There is a statistically significant relationship between performance rewards and SME outcomes ($\chi^2 = 24.87$, $p < 0.05$). Government incentives, including grants, tax reliefs, and recognition programmes, can encourage business expansion and improve performance when they are accessible and transparent.

Conclusion

The empirical findings of this study demonstrate that government economic policies serve as a primary structural driver for the expansion, performance, and long-term survival of small enterprises in Ugep. The Institutional Theory framework provides a robust explanation for these findings: the policy environment—comprising interest rate frameworks, infrastructure investments, and incentive structures—creates the institutional context within which SMEs operate. Where this institutional environment is supportive, businesses can thrive; where it is constrained by high borrowing costs, poor infrastructure, or inaccessible incentives, SME performance suffers.

Recommendations

Based on the empirical insights and discussions presented in this study, the following policy interventions are recommended:

Concessionary Interest Frameworks: The Central Bank of Nigeria and relevant financial institutions should improve access to affordable SME credit. Capping lending rates for registered small businesses lowers the cost of capital, encouraging operators to secure funding for modernization and expansion. Specific interventions include establishing a dedicated SME credit window with single-digit interest rates, creating credit guarantee schemes to reduce collateral requirements, and mandating that commercial banks allocate a minimum percentage of their loan portfolios to SMEs.

Targeted Infrastructural Funding: Government should improve electricity, roads, water and telecommunications infrastructure serving Ugep. Developing stable mini-grids and improving rural-urban transport networks will lower input costs, reduce transit friction, and draw active entrepreneurial capital to Ugep. Specific interventions include prioritising Ugep in rural electrification programmes, constructing and maintaining feeder roads connecting Ugep to major markets, and extending broadband internet coverage.

Accessible Performance Incentives: Government should improve transparent access to grants, tax reliefs, training and enterprise-support programmes. Specific interventions include simplifying application processes for SME support programmes, establishing a one-stop shop for SME registration and support, and creating a dedicated SME helpdesk to increase awareness of available incentives.

Realistic and Feasible Policy Design: National economic planners should design monetary, fiscal, and trade frameworks with the flexibility required to support small firms. This includes consulting with SME associations during policy formulation, conducting impact assessments before implementing major policy changes, and creating transitional arrangements to allow SMEs to adjust to new policies.

LIMITATIONS AND FUTURE RESEARCH

Several limitations should be acknowledged. The study was conducted exclusively in Ugep, which limits generalisability to other local government areas. The cross-sectional design cannot establish causality or capture changes over time. Reliance on self-report data is subject to social desirability and common method bias. Some sectors, particularly agriculture and manufacturing, were underrepresented. Future research should employ longitudinal designs, incorporate qualitative methods, and replicate the study across multiple locations.

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