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Government Policies and the Performance of Small and Medium Enterprises in Burundi: Evidence from Ruyigi Province

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ABSTRACT: This study examined the effect of government policies on the performance of small and medium-sized enterprises (SMEs) in Ruyigi, Burundi, with specific reference to Economat General and Société de Génie Rural et de Construction (SOGERCO). Using a mixed-methods approach, the study adopted both descriptive and correlational research designs. Data were collected from 20 respondents comprising owners, employees, and customers through questionnaires and interviews. Quantitative data were analysed using SPSS version 25, while qualitative data were analysed thematically. The findings revealed a weak positive relationship between government policies and SME performance ($r = 0.289$, $p > 0.01$). Regression analysis further showed that government policies had a positive but statistically insignificant effect on SME performance ($\beta = 0.289$), explaining approximately 8.4% of the variation in enterprise performance ($R^2 = 0.084$). Despite the weak statistical effect, government policies related to taxation, licensing procedures, and business registration were found to influence key performance indicators such as profitability, sales volume, and customer satisfaction. The study concludes that although government policies affect SME performance, they are not the dominant determinants of enterprise success in Ruyigi Province. The study recommends improved policy formulation, consistent implementation, and the incorporation of SME-specific realities to enhance enterprise performance and sustainability.

KEYWORDS: Government policy, SMEs, performance, taxation, licensing, Burundi

INTRODUCTION

Small and medium-sized enterprises (SMEs) play a critical role in economic growth, employment creation, and poverty reduction in both developed and developing economies. According to the Organisation for Economic Co-operation and Development (OECD, 2012), SMEs account for more than 90% of businesses worldwide and are a major source of job creation. In developing countries, SMEs significantly contribute to gross domestic product (GDP) and employment, particularly in the private sector (International Finance Corporation (IFC), 2010). Previous studies have emphasized that SME performance is highly influenced by the external business environment, particularly government policies and regulations (Lumpkin & Dess, 1996; Wiklund & Shepherd, 2005). Government policies related to taxation, licensing, business registration, and trading regulations are intended to regulate economic activities and mobilize public revenue, but they may also impose constraints on SME growth if poorly designed or implemented (Dandago & Usman, 2011; Okpara, 2011). In the context of developing economies, weak institutional frameworks, policy inconsistencies, and bureaucratic procedures often exacerbate the challenges faced by SMEs (Naudé, Szirmai, & Goedhuys, 2011). Studies by Beck, Demirgüç-Kunt, and Maksimovic (2005) further indicate that regulatory and legal constraints significantly affect firm growth, especially among small enterprises. While supportive government policies can enhance access to finance, markets, and infrastructure, restrictive regulations increase operational costs and reduce competitiveness.

In Burundi, SMEs operate within a regulatory environment characterized by taxation requirements, licensing procedures, and administrative controls. Although these policies are designed to support national development objectives, their effects on SME performance remain underexplored, particularly at the regional level. Existing studies in East Africa have largely focused on national-level analyses, leaving a gap in localized empirical evidence (OECD, 2004; IFC, 2010). Against this background, this study investigates the effect of government policies on the performance of SMEs in Ruyigi Province, Burundi, with specific reference to Economat General and Société de Génie Rural et de Construction (SOGERCO). By providing empirical evidence from a localized context and adopting a mixed-methods approach, the study contributes to the literature on SME development and policy effectiveness in low-income economies.

LITERATURE REVIEW

Government policies influence SME operations through taxation, licensing, trading regulations, and business registration procedures. According to Altenburg and Eckhardt (2006), Lumpkin and Dess (1996), and Wiklund and Shepherd (2005), SMEs constitute the majority of firms worldwide and are highly sensitive to regulatory and policy environments. Supportive policies enhance access to markets, finance, and infrastructure, while restrictive policies increase operational costs and reduce competitiveness. Studies by OECD (2004; 2012) and IFC (2010) emphasize that high taxation, complex licensing procedures, and bureaucratic registration processes are among the major constraints facing SMEs in developing countries. Dandago and Usman (2011) further argue that inconsistent government policies and weak implementation mechanisms undermine SME growth and sustainability.

SME performance is a multidimensional concept commonly measured using both financial and non-financial indicators. Davidsson (2004) and Barney (1991) describe performance as the extent to which firms achieve their strategic and financial objectives. Common indicators include profitability, sales growth, market share, and customer satisfaction. According to Lumpkin and Dess (1996) and Zahra (1993), relying on a single performance indicator may lead to misleading conclusions; therefore, multiple measures should be used. Hudson et al. (2001) and Chong (2008) note that SMEs differ from large firms in structure and resource capacity, necessitating performance measures that emphasize flexibility, efficiency, and customer satisfaction.

Empirical evidence suggests a strong link between government policy and SME performance. Anthony and Harry (2015) found that government regulations significantly influence SME competitiveness and profitability. Similarly, Naudé, Szirmai, and Goedhuys (2011) argue that policy frameworks determine the extent to which SMEs can innovate and grow. However, Sathe (2006) observes that government regulations can either facilitate or hinder entrepreneurship depending on their design and implementation. In developing economies, Okpara (2011) and Eniola and Ektebang (2014) report that unstable policies, regulatory burdens, and high compliance costs negatively affect SME performance. These mixed findings highlight the need for context-specific studies, particularly in low-income and transition economies.

Despite extensive literature on government policies and SME performance, several gaps remain. Most empirical studies have been conducted in developed economies or large emerging markets, with limited evidence from low-income countries such as Burundi. This limits the generalizability of existing findings to contexts characterized by weak institutions, limited infrastructure, and fragile policy environments. Many studies also focus on national-level analyses and overlook localized or firm-level perspectives. There is insufficient empirical evidence examining how government policies affect SMEs operating in specific regions, such as Ruyigi, where local administrative practices and enforcement mechanisms may differ from national policy intentions.

Thus, existing studies largely rely on purely quantitative methods, which may fail to capture contextual and experiential insights from SME owners, employees, and customers. The limited use of mixed-methods approaches creates a gap in understanding how government policies are perceived and experienced by different SME stakeholders. In light of these gaps, the present study contributes to the literature by providing empirical evidence from Burundi, adopting a mixed-methods approach, and examining the localized effects of government policies on multiple dimensions of SME performance. This approach enhances contextual understanding and offers policy-relevant insights for improving SME development in similar settings.

METHODOLOGY

The study employed descriptive and correlational research designs and adopted a mixed-methods approach combining quantitative and qualitative techniques. The study population consisted of 20 respondents, including SME owners, employees, and customers from Economat General and SOGERCO in Ruyigi Province. Due to the small population size, the entire population was used as the sample. Primary data were collected using self-administered questionnaires for owners and employees and interview guides for customers. Secondary data were obtained from books, journals, and policy documents. Quantitative data were analysed using SPSS version 25 to generate descriptive statistics and Pearson correlation coefficients. Qualitative data were analysed thematically to complement quantitative findings.

RESULTS

Correlation analysis revealed a weak positive relationship between government policies and SME performance ($r = 0.289$, $p > 0.01$). This implies that although government policies influence SME performance, the effect is not statistically significant. Qualitative findings showed that customers were generally satisfied with products and services, but price concerns partly attributed to taxation affected purchasing behaviour.

To further examine the effect of government policies on SME performance, a simple linear regression analysis was conducted with SME performance as the dependent variable and government policies as the independent variable. The R^2 value of 0.084 indicates that government policies explain approximately 8.4% of the variation in SME performance, while the remaining variation is explained by other factors not included in the model. Although the coefficient for government policies is positive, the p-value suggests that the effect is not statistically significant at conventional significance levels.

The results align with previous studies suggesting that government policies affect SME performance but may not be the sole determinants. Weak policy implementation, limited policy awareness, and external economic factors may explain the insignificant relationship observed. The regression findings corroborate the correlation results and suggest that while government policies influence SME performance, they are not the dominant determinants of performance among SMEs in Ruyigi Province. This implies that other factors such as managerial capacity, access to finance, market conditions, and internal operational efficiency may play a more significant role in shaping SME outcomes. These findings are consistent with prior studies that report weak or mixed effects of government policies on SME performance in developing economies, particularly where policy implementation is inconsistent or enforcement mechanisms are weak.

CONCLUSION AND RECOMMENDATIONS

The study concludes that government policies have an influence on the performance of SMEs in Ruyigi, although the relationship is weak. Taxation, licensing, and regulatory procedures remain key policy areas affecting SME profitability, sales volume, and customer satisfaction. Improving policy design and implementation could enhance SME performance and sustainability.

(i) The Government should **s**implify taxation and licensing procedures and ensure consistent and transparent policy implementation to support SME growth.

(ii) There is a need for SMEs to enhance compliance, customer engagement, and internal management practices to mitigate policy-related challenges.

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