Does Interest Rate Affect The Growth Of SMEs In Nigeria?

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ABSTRACT

Small and medium scale enterprises (SMEs) have been described as an important sub-sector that enhances economic growth. However, there are myriads of problems that limit its prospects in the country. One of such problem is the issue of interest rate which hinders access to finance. The objective of this paper is to evaluate the effect of interest rate on small and medium scale enterprises in Nigeria, using annual time series data covering a period of 2000 to 2019 sourced from the World Development Indicator (WDI) and the Central Bank of Nigeria (CBN) statistical bulletin. The data collected were Small and medium scale enterprises GDP (SMEG) which is the dependent variable while commercial bank total credit to private sector, commercial bank loans to SMEs, percentage of commercial bank loans to SMEs, Monetary Policy Rate (MPR), inflation, exchange rate, reserve requirement and lending rates of commercial banks to SMEs are the independent variables. Descriptive and inferential statistics were employed, the Autoregressive Distribution Lag (ARDL) were used to test the long run relationship of the variables. The results show that LRCM have a negative effect on the SMEGDP such that if the LRCM is increased by 1%, SMEGDP declines by 1.6%. On the other hand, an increase in RR by 1% leads to an increase in SMEGDP by 0.005%. It is recommended that the MPR and INFR which is the chief determinant of interest rate should be reduced which will bring about a reduction in LRCM and this will improve the financial capacity of SMEs and thus leading to an increase in the contribution of SMEs to the nation's GDP.

Keyword: SME, Interest rate, Inflation, Exchange Rate, Reserve Requirement, Nigeria

1. INTRODUCTION

The roles played by small and medium scale enterprises in developed and developing economies has triggered the reconsideration of its importance by global economies (Aremu & Adeyemi, 2011). Small and medium scale enterprises have been acknowledged as an engine of economic growth, promoting economic well being of nations especially in developing and emerging market economies through employment generation and poverty alleviation (Onyenebo, 2018).

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SMEs contributes to GDP, increase revenue from taxes, skills development of human resources, fostering entrepreneurship culture, employment opportunities, poverty alleviation, improving the standard of living, income generation and quality of life (Qureshi, 2010). Small and medium scale enterprises may be considered as the oldest form of business in the world as many large organisations began as small and medium scale enterprises. According to United Nations Industrial Development Organisation (UNIDO, 2002), SME plays a critical role in economic integration of developing countries through economic liberalisation, deregulation and democratisation as it accounts for 90% of global businesses, employing between 50% – 60% of the working population.

Developed countries have leveraged on small and medium scale enterprises to attain economic greatness (Olaoye, Adedeji & Ayeni-Agbaje, 2018). According to OECD (2019), SMEs accounts for 99% of all businesses and contributing between 50% and 60% of value added. The importance of this sector which operates majorly in the informal sector of the economy is definitely not in doubt as it forms the foundation for economic growth and development.

The growth and sustenance of small and medium scale enterprises are affected by a myriad of factors chief of which is the availability of finance (World Bank, 2017). The funds needed by SMEs are provided by the banking sector at a cost commonly referred to as interest. Globally, the banking sector serves as an intermediary for mobilising funds from the surplus sector and made available to the deficit sector at a cost. Omoruyi and Osawmonyi (2013) perceived the banking sector as the provider of funds to businesses. Interest is the opportunity cost of borrowing or the sacrifice made in other to raise funds. Ene, Atong and Ene (2015), saw interest as the signal that determines the movement of funds.

It is no doubt that interest rate is a macroeconomic instrument used by the monetary authorities to regulate the demand for and supply of money. Interest rate is an important term in lending activities of banks (Bhattarai, 2015). Interest rate is of great concern to lenders, borrowers and economist at large as it plays an important role in economic growth and development. Acha and Acha (2011) contended that one of the benefits of interest rate is it equilibrating influence on supply and demand in the financial sector. It determines how money moves in the economy between the borrowers and lenders (Olaniyan, Adegboye, Owoniya & Alaketu, 2020).

Studies carried out by Randal (1998); Brock and Rojas-Suarez (2000); Gelos (2006); Chirwa and Mlachila (2004) and Crowley (2007) adopted from Folawewo and Tennant (2008) have shown that interest rates are high in Sub-Sahara Africa, Carribean countries and Latin America. The attainment of a prosperous economy will remain elusive in the midst of high interest rate which stagnates economic growth and hinders the expansion of businesses. Developing nations have maintained a double digits interest rate which makes cost of borrowing from the banking sectors relatively high compared to a single digit in many developed countries.

In developed economies 98% of all enterprises belong to SME sector, employing 80% of labour force in Japan, 50% in Germany, 46% in USA and contributing 39% of national income to the USA economy (Udechukwu, 2003), and 60% to the Chinese GDP in 2014 (Lam & Liu, 2020). Credit advancement to SMEs should not be on short term for meaningful impact to be created but the lending sector always preferred the opposite because of the volatile, high mortality rate and high risk involved in lending to the SMEs.

A healthy and vibrant financial system will give birth to a healthy and vibrant economy (Gakunu, 2007). Commercial banks help in this regard (Andres & Vallelado, 2008; Giorgis, Tarus & Cheruiyot, 2015) cited in Tarus & Manyala (2018). Finance is key to the growth and sustenance of any business irrespective of its size. Lack of easy access to finance coupled with the fact that banks which is supposed to be the second best alternative source of finance to SMEs have not performed well in this regard to support new business initiatives. The problems associated with SMEs financing have received tremendous attention from researchers and policy makers. Taiwo, Falohun and Agwu (2016) opined that researchers over the years have identified cost of capital, shortage of equity capital, inappropriate terms of bank loans and risk as a major hindrance to the success of SMEs in the country.

There are of course numerous problems that affect the success of SMEs such as collateral facilities, bank lending policies, government policies, environmental factors and infrastructural facilities. The major sources of finance for SMEs are obtained from the banking sector. According to Evboumwan, Ikpi, Okoruwa and Akinyosoye (2013), total commercial bank loan to SMEs in 1970 was ₦83.40 million, ₦23.9 million in 1992 and rose to ₦41.5 billion in 1995 representing an increase of 73.64%. CBN (2019) revealed that out of a total private sector loan of ₦254,853.10 million in 1996 a total of ₦42,302.10 million was granted to the SMEs representing 16.60% of loans disbursed in that year. As at 2003, a total of ₦90,176.50 million loan was granted to the sector and this rose to ₦354,605.70 million in 2019. Low interest rate attracts investment and causes an expansion in output (Ojeaga & Odejimi, 2014).

1.1 Statement of problem

The huge financial gap for SMEs which exist as a result of the shortfall between demand and supply can be addressed by financial institutions. The International Financial Corporation (2017) estimated the demand for formal SMEs finance to $8.9 trillion compared to the supply of credit which stood at $3.7 trillion leaving a financial gap of $5.2 trillion each year which is 1.4 times the current level of SMEs lending globally and the demand for informal SMEs was $2.9 trillion. East Asia and Pacific account for the largest share of global financial gap with 46%, Latin America and the Caribbean 23% while Europe and Central Asia accounts for 15%. A survey conducted by PricewaterhouseCoopers (PwC) in 2020 revealed that MSMEs accounts for 96% of total number of businesses in Nigeria contributing about 50% to national GDP, 14% are limited liability companies, 73% are sole proprietorship while faith based, partnership, cooperative societies and others constitute the remaining 13%. Access to finance was considered as the most pressing problems currently facing the sector amongst other numerous problems and there exist a credit gap of about ₦617.3 billion annually.

The survival rate of small and medium enterprises has been a contending issue in Nigeria. Basil (2005) reveals that small and medium enterprises die within their first five years of establishment, a smaller percentage survive the first five years but goes into extinction in the sixth and tenth year while five to ten percent of these SMEs survive, thrive and goes into maturity. About 80% of SMEs in the country goes into extinction within the first five years (Obiwuru, Okwu, Akpa & Nwankwere, 2012). Access to credit facility has been a major constraint limiting the growth of SMEs in relation to its contribution to gross domestic product (Opara, 2011; Basil, 2005; Onyenebo, 2018; Ayuba & Zubairu, 2015; Aremu & Adeyemi, 2011; Beck 2007; Lam & Liu, 2020). It is no doubt that apart from funds sourced internally by operators of SMEs in the country, the external source of funds comes from the banking sector. High interest rate discourage operators of SMEs from having access to these loans to finance their businesses.

Since Nigeria's independence successive governments at all levels have formulated or implemented one policy or the other to harness the fortunes of small and medium scale enterprises for national economic development. Having understood the importance of funding as a critical impetus for the sustenance and survival of SMEs in Nigeria, efforts have been made to cushion its effect by providing funds for the growth of the sector at a reduced interest rate. Onyenebo, Adebanwa and Pearse (2020) asserted that institution like Small and Medium Industry Equity Investment Scheme (SMIEIS), established in 1999; Bank of industry (BOI) established in 2001; Nigerian Agricultural Co-operative Rural Development Bank (NACRDB) established in 2000; Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) 2003; National Poverty Eradication Programme (NAPEP) set up in 2001; Youth Enterprise with Innovation in Nigeria (YouWIN) set up in 2013 and Small Scale Industry Credit Scheme (SSICS) and National Directorate of Employment (NDE) 1989 have been set up at different times to address the needs of the sector.

The establishment of Government Enterprise and Empowerment Program between 2019 and 2020 to cushion the effect of interest rate and provide financial stimulus for micro, small and medium businesses in collaboration with the Central Bank of Nigeria to grant interest free loans to MSMEs for three months. Under the program, funds were distributed as Trader Moni, Market Moni and Farm Moni with an initial borrowing of ₦10,000.00 and subsequent borrowing of up to ₦100,000.00 after the repayment of the initial borrowing. The inability of the target audience to access these funds which is sometimes distributed on the basis of political and religious affiliations have worsened their financial needs and impacted negatively on their overall performance in terms of quality of output and employment generation, hence the need to seek for external borrowing from the banking sector. Despite the efforts of the government to address the financial needs of SMEs, not much has been achieved, as the contribution of the sector to the growth rate of GDP remains relatively low compared to other countries of the world.

1.2 The Objective of the study

There is indeed no controversy about the importance of this sector to the well being of nations. Financing SMEs have attracted the attention of various writers and scholars. Little works have been done on interest rate and SMEs in Nigeria. The main objective of this paper is aimed at addressing the effect of interest rate on small and medium scale enterprises in Nigeria. Empirical evidence shows that none of the works on SMEs and interest rate have incorporated the effects of reserve requirement on the lending of commercial banks. This paper fills the gaps while also adding to the number of available works on interest rates and SMEs in Nigeria.

2. LITERATURE REVIEW

2.1 Conceptual Review

Small and medium scale enterprises in Nigeria

There is no known evidence to determine the origin of SMEs in Nigeria as there is also no single definition or parameter that encapsulates the meaning of SME globally (Oba & Onuoha, 2013). However, efforts have been made by scholars and institutions to provide a working definition. Kadiri (2012) noted that the parameter for determining an enterprise as small, medium or large differs between countries depending on their level of economic and institutional development. SMEs can be defined by ownership structure, number of employees, annual turnover and assets base (Onyenebo, 2018). The national policy on MSMEs categorises Micro businesses as enterprises who employs less than 10 employees and having less than ₦5 million in assets excluding land and building.

Small enterprises are businesses that engage between 10 and 49 employees with total assets excluding land and building above ₦5 million but less than ₦50 million while medium enterprises engage more than 50 employees but less than 200 employees with assets base excluding land and building above ₦50 million but less than ₦500 million. Financial System Strategy (FSS, 2020) reported that SMEs are seen as enterprises whose annual turnover are below ₦100 million and has a staff strength of less than 300. The percentage of SMEs in Nigeria is about 96% compared to Europe and US that has 65% and 53% respectively while the manufacturing subsector controls a larger percentage of SMEs in the country. On the average, the contribution of SMEs to the country's national income is about a percentage compared to Asian countries that contributes 40% to the national income and 50% to the GDP of US and Europe

Obamuyi (2011) contended that SMEs in Nigeria are found in transportation, fishing, manufacturing, mining and quarrying, construction, forestry, domestic trade, export, real estate, import, public utilities, commerce, personal, professional, agriculture and miscellaneous. A national survey on micro small and medium enterprises conducted by the National Bureau of Statistics in 2017; there are 41,543,028 of these businesses in Nigeria as at 2017. The breakdown shows that of these figure micro enterprises consist of 99.8% while medium enterprises represent 0.2%. A further study by National Bureau of Statistics (NBS, 2001) reveals that SMEs in Nigeria make up 97% of the economy. Basil (2005) estimated that there are 8.4 million SMEs in Nigeria. Despite the harsh economic environment that confronts SMEs, the sector has continued to strive for survival and has contributed meaningfully to the growth of national income in terms of employment generation and reduction in poverty. However, as noted by Taiwo, Falohun and Agwu (2016) the sector is yet to manifest its full potential. SMEs have not benefitted much from the banking community in terms loans and advances to spur up their business. The banking sector has always considered loans to the SMEs as a high risk given the rate of defaults that characterise the sector.

2.1.1 Interest Rate Regime in Nigeria

The role of interest rate in the economy can not be down played when evaluating variables that influence global economies. Interest is a price that must be paid when accessing financial credit from the banking sector. Sawaya and Bhero (2017) opined that its use as a monetary policy instrument by the monetary authorities has been a subject of controversy. Interest rate regime in Nigeria has witnessed enormous swings at different time (Chris & Anyingang, 2012). The determination of interest rate is one of the most controversial policies in the financial sector of the Nigerian economy giving the fact that interest rate affect other macroeconomic variables like investment decisions (Eregha, 2010). Interest rate helps in the efficient allocation of scarce resources for economic growth and development (Osundina & Osundina, 2014).

There has not been stable interest rate in many developing nations as it is regulated by the monetary authorities to promote savings culture and encourage investment in SMEs (Olatunji & Ibukun-Falayi, 2018). Interest rates are determined by a number of factors like inflation, investment, government policy, savings, monetary policy and currency devaluation (Olatunji & Ibukun-Falayi, 2018). Other factors affecting interest rate determination are excess reserve, cash reserve ratio and exchange rate.

Nigeria operated a regulated interest rate regime prior to the adoption of Structural Adjustment Programme (Rasheed, 2010). During this period, different interest rate were set for different sectors of the economy on the assumption that if left unchecked certain sectors of the economy will be short changed by the banking sector. The era witnessed a low interest rate regime. However, from 1986, being the era of Structural Adjustment Programme, the country began to operate a deregulated interest rate regime which is based on the forces of demand and supply.

Bank consolidation in Nigeria between 2000 and 2010 began in 2004 (Carlos & Guglielmo, 2012). Among other reasons for bank consolidation was to have a stronger financial institution that will play a pivotal role in economic growth, granting loans to vital sectors of the economy at a reduced interest rate, thus reducing the cost of credit which contributes to high cost of production. The rate of interest charged by banks depends on the riskiness of the loan. Granting of loans to low risk ventures attracts a low rate of interest while a high risk loan attracts a high interest rate. According to Rahman, Rahman and Belas (2017), the size of loans that financial institutions grant to borrowers are limited to the size of risk involved.

2.1.2 Interest Rate and Small and Medium Enterprises

Stephen (1970) expressed that the percentage of loan paid as consideration by a borrower to a lender of capital to make such capital available for his use is called interest rate. Ajayi and Oloyede (2000) expressed that interest rate is of great importance in the allocation of resources from surplus units to deficit units in order to encourage growth and development in an economy.

Interest rate plays a very important role in determining the flow of funds. High interest rate encourages savings and conversely discourages borrowing which affect productivity in the economy. Obamuyi (2009) was of the view that interest rate behaviour determines the rate of investment in an economy. High interest rates have the potential of stagnating the growth and sustenance of SMEs, forbidding them in contributing to national income of the economy. The huge earning that goes into interest payment would have been retained and ploughed back into the business for greater output. New entrant into the market would not have saved enough to start up their business, they would naturally rely on the banking community to source for the needed funds but high interest rate would serve as detrimental factor to such dreams and aspirations. Conversely, SMEs will expand faster and better if interest rates are kept low.

Cost of finance constitutes 35% of the problems faced by SMEs in their operating environment (Beck, 2007). The level of credit discrimination suffered by SMEs in accessing bank credit is caused by information cloudiness (Rahman, Rahman & Belas, 2017). There are specific problems that hinders lending to SMEs, these are largely due to lack of proper information about the operations of the sector as compared to large organizations which produce an audited accounts for bank evaluation prior to provision of credit facilities. Entity concept in most case are not applicable in small organizations as there is no clear cut difference between the accounts of the promoters and that of the business (OECD 2006, 2015). Large organizations negotiate for lower interest rate than small businesses. Lack of personal banking relationships is adversely affecting their pursuit to obtain bank credit at a low rate. OECD (2016) revealed that interest rates on loans obtained by SMEs are higher than that of large firms by 4% points.

The lending sector also considers the survival of these SMEs during the period of bank loan as the rate of mortality is high and hence rather than grant long term loans prefer short term loans at a high interest rate. Berger, Espinosa-Vega, Frame and Miller (2011) observed that firms with collaterals are likely to obtain loans at a reduced interest. The opposite of this observation is that small businesses due to lack of collaterals source for loans at a high rate, if they must be provided with the credit facility.

Ikom and Chukwu (2018) noted that SME GDP was 1127.23 million in 2002 and this rose to 3578.64 million in 2010 and all time high in 2015 amounting to 8973.77 million. However, Oyedokun and Micah (2019) stated that the output of the sector in 2006 was 1471821.60, rose to 1837372.44 in 2010 and decline to 1782093.78 in 2017. CBN (2019) reveal that while the MPR was 14% lending rate by commercial banks was 21.55% in 2000. While the CBN reviewed the MPR downward to 6.25% in 2010, the lending rate was 22.51% in the same period. In 2019, the MPR was 13.50%, interest rate was 31.01%. Monetary policies adopted by the Central Bank influences interest rate. It is widely believed that a single digit interest rate will improve economic fortunes of not just the SMEs but the overall investment in the country. The CBN in its guideline for the operation of Micro, Small and Medium Enterprise Development Fund for Nigeria (MSMEDF) introduced Interest Drawback Programme (IDP) to reduce the effect of interest rate on borrowers, encourage borrowing at a single digit to enhance financial inclusion.

Small and medium scale enterprises have the potential to achieve higher productivity and increase its contribution to national income if the paucity of funds are addressed by the relevant authorities. Specifically the Central Bank can do a lot more in this regard being the sole regulator of the market. The interest rates charged by banks when lending to small and medium enterprises are usually higher due to high risk involved than the rates at which large organisation source for bank finance. Calice, Chando and Sekioua (2012) perceived the SME as largely under served by the existing banks. Hence 85% of SMEs have bank accounts but cannot obtain a bank loan (Terungwa, 2011). This is as a result of numerous factors but largely because of high interest rates that force them to solicit for financial help from other sources rather than from the banking sector (Gbandi & Amissah, 2014). Microfinance banks that were established to cushion the effects of high interest rates on SMEs have not performed better. The lending rates of these institutions are far higher than that of commercial banks and does not grant long term finance, the maximum being 6 months at an interest rate of 5% per month which amounts to 30% in just 6 months.

The Manufacturers Association of Nigeria (MAN) has advised the CBN to maintain a single digit interest rate to make loans accessible as high interest rate deters economic growth especially in the real sector of the economy (Business Day, 2021). However, in an interview by the Group Managing Director of Zenith Bank Plc, on Arise Television, Mr. Ebenezer Onyeagwu explained that operational cost, regulatory cost, government borrowing, money supply and demand and fiscal deficit are among other factors that hinder SMEs from accessing bank credit at a single digit. Granting of loans at a single digit by financial institutions will be difficult given the fact that the CBN maintains a Monetary Policy Rate at a double digit. The higher the MPR, the higher the lending rate and vice versa. To achieve a single digit interest rate that will make bank credit affordable to SMEs, the CBN will have to do much more than it is currently doing, remove all perceived bottleneck that hinders the achievement of this goal.

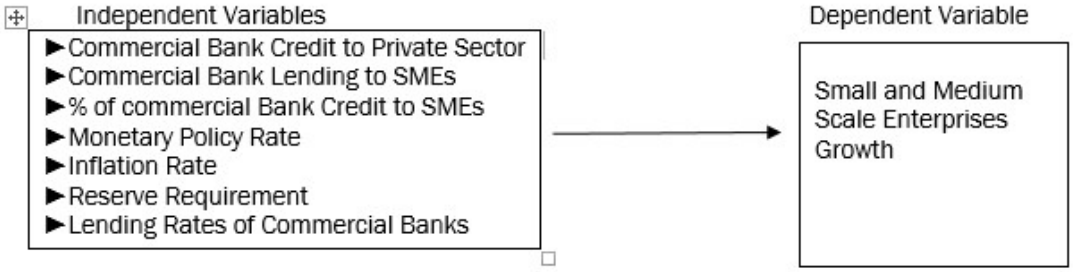

Figure 1: Conceptual framework, Sources: Researchers' 2022

2.2 Theoretical Review

There are no doubts that there exist different theories of interest rate ranging from the classical theory, neo-classical theory, the productivity theory and the Keynesian theory to mention but a few. The General Theory of Employment, Interest and Money published in 1936 by John Maynard Keynes provided the basis for development economics. Keynes, in his view asserted that the rate of interest determines the level of employment, affects the supply of money and investment processes in the economy (Appelt, 2016). Interest rate plays a vital role in reallocating productive resources. In Keynes theory, interest is referred to as the 'market interest rate and it the reward for parting with liquidity for a specified period' (84). According to Keynes, market interest rate is influenced by the supply of and demand for money.

Keynes introduced the concept of liquidity preference in which he distinguished between transactionary motive, precautionary motive and speculative motive for holding money. Transactionary motive precautionary motive are influenced by the level of income while speculative motive depends on the rate of interest. Therefore, the demand for money M_d will be equal to M_1 (transactionary and precautionary motive for holding money) plus M_2 (Speculative motive for holding money).
Keynes sees interest as a reward for not hoarding rather than for not spending. According to Keynes, the supply of money is exogenously determined. Interest rate is determined by the demand and supply of money.

2.3 Empirical Review

Olaoye, Adedeji and Ayeni-Agbaje (2018), examined commercial banks lending to small and medium scale enterprises and Nigeria economy from 1998 to 2017. Secondary data used were sourced from National Bureau of Statistics and the statistical bulletin of the Central Bank of Nigeria. Descriptive analysis, correlation analysis, ordinary least square technique and granger causality were used to obtain results from the data. The result obtained reveals that loans granted to SMEs and average bank lending rate to SMEs had a negative but insignificant impact on GDP. However, inflation rate exert a positive and insignificant impact. The result further reveals that there is a no causal relationship between commercial banks loan, average bank lending and inflation and Nigerian economy while commercial banks loan and average commercial bank lending rate has a causal relationship. The study therefore recommended that Nigerian government should encourage banks to grant credit to SMEs in other to grow the sector.

Nyumba, Muganda, Musiega and Masinde (2015), established the effect of loan interest rate on the performance of small and medium size enterprises in Kenya using a well tailored questionnaires to obtain the relevant information for the study. The reliability of the data was tested with Cronbach's Alpha test while the test-retest and data triangulation technique was adopted to verify the validity of the data and adopting descriptive analysis to obtain the empirical results. The result of the data revealed that there is a positive significant effect of loan interest rate on the performance of small and medium scale enterprises in Kenya and recommend that there is need for future funding programmes and schemes to achieve greater growth in small and medium scale enterprises.

Maalim and Gikandi (2016) assessing the effects of interest rate on credit access of small and medium in Garissa County. The researchers adopted a descriptive statistical analysis using the Statistical Package for Social Science (SPSS) to analyse the result of the primary data collected through structured questionnaires. Their work found that interest rate is related to the level of credit access by SMEs as a reduction in interest rate would lead to an increase in the demand for credit. The study therefore recommend that interest rates should be reduced to give room for SMEs to expand their growth by accessing bank loans and this can only be achieved if the government intervenes to ensure that SMEs have easy access to credit facilities.

Olatunji and Ibukun-Falayi (2018) assessed the effect of interest rate regulation on credit administration to SMEs in Nigeria for a period of twenty years from 1994 – 2013. Data obtain from CBN statistical bulletin were used to assess how interest rate regulation has influenced the level of credit given to the SMEs. The result from the analysis shows that interest rate alone does not exert significant effect on credit administration to SMEs but in conjunction with other variables such as foreign exchange volatility, access to credit and inflation. The study recommends that to achieve a more robust SMEs the government should subsidise interest rate along a guaranteed credit scheme and proper financial education.

Sawaya and Bhero, (2017), investigating the role of interest rate to the growth of small and medium enterprises in Mozambique. It was revealed that though high interest rate serves as deterrent to the growth of the sector but there are numerous other factors that affect the sector rather than interest rate. Questionnaires and interviews were used to collect the necessary information from 485 sampled SMEs in a particular locality. The result of the analysis shows that high interest rate was not a major constraining factor but some institutional loopholes that need to address. It therefore urged the relevant authorities to channel their efforts towards building a virile policy that sustain the growth of SMEs in the country.

Okpara (2014) carried out a study to ascertain the factors that have limited the growth and survival of SMEs in Nigeria. Questionnaires were administered to 211 of such businesses in the country. Many statistical tools were used to analysis the data collected. His work found out corruption, poor infrastructure, low demand, insufficient financial support, inadequate training and inexperience and poor management were among the numerous factors inhibiting the survivals of SMEs in the country. Iliyasu (2019) undertook an empirical analysis of the impact of interest rate on agriculture in Nigeria, using secondary data that were collected between 1999 and 2016. The result from the regression analysis show that interest rate impacted negatively on the performance of the agricultural sector in the country. The study further asserted that monetary policy rate and interest rate have not been effectively and efficiently used by the government through the monetary authority to reduce the cost of finance from the banking sector. It recommend that a low interest rate will have a positive impact on the sector.

Kayode, Popoola and Adeyinka (2020) evaluated impact of credit risk management and entrepreneurship development in Nigeria on small and medium scale industries in Ondo state. Data generated were analysed with the aid of descriptive statistics and regression analysis. Findings of the study indicate that SMEs faces the problem shortage of funds among other constraints. The study recommended that the government has a lot to do to help the sector in order to survive in terms of funding and improvement in infrastructure.

Kisseih (2017) examined interest rate fluctuations on the growth of small and medium enterprises in Accra. Data were collected from six selected SMEs companies from Okaishie, Dansoman, Accra-Newtown, Abossey Okai, Opera Square and Accra CMB which are from Greater Accra region and cut across major sectors of the economy which were trading, manufacturing, education, finance, retailing and agricultural activities. . The work used primary and secondary data, primary data was collected through questionnaire were analyzed with the aid of Statistical Package for Social Sciences (SPSS) while secondary data were garnered for the period of 2001 to 2008 spanning 8years. Earnings before interest and tax SMEsEBIT serve as dependent variable while interest rate (INTR), capital structure (LOAN) and size of the business (FA) serve as independent variables. Regression analysis was used for the analysis of secondary data, particularly, Auto Regressive Distributed(ARDL) techniques was used to determine the co-integration relationship between the variables in the long-run.

The result of the analysis revealed that there was a relationship between Earnings before Interest and Tax and interest rate as well as other variables. The paper recommended that government should impose a minimum credit allocation for SMEs by banks to the sector to improve its fortunes in the economy.In Government should formulate policies that will compel banks to make credit facilities more accessible to SMEs by relaxing most of the conditions making it difficult for SMEs to easily access credit facilities in banks and train SMEs entrepreneur formal and inform how to improve or management of their business and access credit facilities easily.

3. METHODOLOGY

This study used secondary data sourced from World Development Indicator (WDI), Statistical Bulleting of Central Bank of Nigeria and National Bureau of Statisical annual report. The data collected were Annual Small Scale GDP, inflation rate, commercial bank credit to SMEs, commercial bank credit to the private sector, exchange rate, percentage of commercial bank loan to SME, monetary policy rate, reserve requirement and lending rate of commercial banks. Descriptive and inferential statistics were used to analyse the data collected. Augmented Dickey Fuller (ADF) unit root test were used to ascertain their levels of stationarity. The study adopted the Autoregressive Distribution Lag (ARDL). Data collected spanned a period of 20 years from 2000 to 2019.

Model Specification

$$SMEG = F[CMCRP + CMLE + PCMLE + MPR + INFR + EXR + RR + LRCM] \quad .....1$$

SMEG = small and medium scale enterprises growth.
CMCRP = commercial bank credit to private sector
CMLE = commercial bank lending to SMEs
PCMLE = Percentage of commercial banks loans to SMEs
MPR = Monetary policy rate

INFR = Inflation rate
EXR = Exchange rate
RR = Reserve requirement
LRCM = Lending rates of commercial bank

$$SMEG = \beta_0 + CMCRP + CMCLE + PCMLE + MPR + INFR + EXR + RR + LRCM + \mu_t \quad .....2$$

$$SMEG = \beta_0 + SMEG_{t-1} + CMCRP + CMCLE + PCMLE + MPR + INFR + EXR + RR + LRCM + \mu \quad .....3$$

$$LnSMEG_t = \beta_0 + \beta_1 LnSMEG_{t-1} + \beta_2 LnCMCRP + \beta_3 LnCMCLE + \beta_4 PCMLE + \beta_5 MPR + \beta_6 INFR + \beta_7 EXR + \beta_8 RR + \beta_9 LRCM + \mu_t \quad .....4$$

$$\Delta LnSMEG_t = \beta_0 + \beta_1 \sum \Delta LnSMEG_{t-1} + \beta_2 \sum \Delta LnCMCRP + \beta_3 \sum \Delta LnCMCLE + \beta_4 \sum \Delta PCMLE + \beta_5 \sum \Delta MPR + \beta_6 \sum \Delta INFR + \beta_7 \sum \Delta EXR + \beta_8 \sum \Delta RR + \beta_9 \sum \Delta LRCM \mu_t$$

4. DATA ANALYSIS AND RESULT

Table 4.1 Descriptive Statistics

	SMEG	CMCRP	CMLE	PCMLE	MPR	INFR	EXR	RR	LRCM
Mean	4542.883	8277041.	54796.67	2.120500	12.55000	12.06711	173.5395	1463.844	24.02450
Median	3374.730	9406309.	21040.10	0.510000	13.00000	12.15626	148.6350	182.2350	22.75000
Maximum	9015.170	17436986	354605.7	8.680000	20.50000	18.87365	307.0000	4978.800	31.01000
Minimum	1011.270	587999.9	10747.89	0.070000	6.000000	5.388008	101.7000	77.78000	18.36000
Std. Dev.	3169.801	6032557.	79909.19	2.944117	3.325143	3.664249	71.21441	1762.208	4.243745
Skewness	0.352895	0.044928	2.911055	1.242958	0.006681	0.057217	1.204590	0.792015	0.432977
Kurtosis	1.464456	1.553310	11.19735	2.964315	3.598737	2.259321	2.830464	1.984218	1.981899
Jarque-Bera	2.380029	1.750821	84.24459	5.150873	0.298887	0.468084	4.860740	2.950802	1.488671
Probability	0.304217	0.416691	0.000000	0.076121	0.861187	0.791329	0.088004	0.228687	0.475050
Sum	90857.66	1.66E+08	1095933.	42.41000	251.0000	241.3422	3470.790	29276.87	480.4900
Sum Sq. Dev.	1.91E+08	6.91E+14	1.21E+11	164.6887	210.0750	255.1076	96358.36	59002193	342.1781
Observations	20	20	20	20	20	20	20	20	20

Table 4.1 shows the details of the descriptive statistics. In summary the tables shows the dependent and the independent variables. It shows Small and Medium Scale Enterprises GDP (SMEG), Commercial bank total credit to private sector (CMCRP), Commercial bank loan to SMEs (CMLE), Percentage of commercial bank loan to SME (PCMLE), Monetary Policy rate (MPR), Inflation Rate (INFR), Exchange Rate (EXR), Reserve Requirement (RR), and Lending rate of commercial bank (LRCM). The Jarque-Bera diagnostic test shows that SMEG, CMCRP, PCMLE, MPR, INFR, EXR, RR and LRCM are normally distributed while CMLE is the only variable that is not normally distributed.

Table 4.2 Stationary Test

VARIABLES	ADF@LEVEL	ADF@1st DIFF	ADF@ 2nd DIFF	Order of Integration
LOGSMEG	-2.61069	-0.39875	-2.80218*	I[2]
LOGCMCRP	-1.53089	-2.26475	-4.518485***	I[2]
LOGCMLE	-0.78699	-3.53213**	----------	I[1]
PCMLE	-5.28604***	----------	----------	I[0]
MPR	-1.83086	-5.76040***	----------	I[1]
INFR	-328268**	----------	----------	I[0]
EXR	0.12131	-3.39455**	----------	I[1]
RR	1.36267	-3.04902**	----------	I[1]
LRCM	-1.18187	-5.29004***	----------	I[1]

Source: Authors' computation, 2021

The unit root test using the Augmented Dickey fuller [ADF] was carried out. The results show that the variable are integrated at I(0), I(1) and I(2). For the variables in the model, the study applies constant intercept and trend terms. The optimal lag length of each variable is chosen, using the Schwarz information criteria (SIC).

From the table inflation rate [INFR] is the only variable stationary at level in the model. After taking the first different [LOGCMLE], MPR, EXR, RR and LRCM became stationary. Furthermore, after taking the second different LOGSMEG and LOGCMCRP become stationary. The result shows that ADF calculated statistic for the variables in absolute terms is greater that the ADF critical value at either 1% or 5% level of significant or both as denoted ***, ** and * respectively. From the result obtained, the study further carry out the co integration test using the bond test analysis which is the co-integration test for ARDL short run analysis.

Table 4.3: Result of Bound Test

F-Bounds Test Null Hypothesis: No levels relationship

Test Statistic	Value	Signif.	I(0)	I(1)
			Asymptotic:	
			n=1000	
F-statistic	2.896140	10%	2.37	3.2
K	3	5%	2.79	3.67
		2.5%	3.15	4.08
		1%	3.65	4.66
			Finite Sample:	
Actual Sample Size	19		n=35	
		10%	2.618	3.532
		5%	3.164	4.194
		1%	4.428	5.816
			Finite Sample:	
			n=30	
		10%	2.676	3.586
		5%	3.272	4.306
		1%	4.614	5.966

Source: Authors' computations, 2021

As shown in table 4.3. The Null hypothesis [Ho] of co-integration long run test is rejected, as the value of the F- statistic (2.896140) is in between 5% level of significant. It is higher than bound integrated value at level I[0] but lower than bound integrated value at level I[1] Therefore, the result shows that there is a long run relationship between the variable at 5% level of significant.

Table 4.4 ARDL Long Run Co-efficient

Dependent Variable: LOGSMEG
Method: ARDL
Date: 08/01/21 Time: 16:58
Sample (adjusted): 2001 2019
Included observations: 19 after adjustments
Maximum dependent lags: 1 (Automatic selection)
Model selection method: Akaike info criterion (AIC)
Dynamic regressors (1 lag, automatic): LOGCMCRP LOGCMLE PCMLE
Fixed regressors: MPR INFR EXR RR LRCM C
Number of models evalulated: 8
Selected Model: ARDL(1, 1, 1, 0)

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
LOGSMEG(-1)	0.707713	0.313797	2.255325	0.0587
LOGCMCRP	-0.243546	0.199599	-1.220175	0.2619
LOGCMCRP(-1)	0.358630	0.228672	1.568314	0.1608
LOGCMLE	-0.028699	0.043442	-0.660631	0.5300
LOGCMLE(-1)	-0.054620	0.045427	-1.202367	0.2683
PCMLE	0.001670	0.034891	0.047875	0.9632
MPR	0.009135	0.015108	0.604618	0.5645
INFR	-0.012298	0.009917	-1.240076	0.2549
EXR	-0.000471	0.000950	-0.495904	0.6352
RR	5.39E-05	9.79E-05	0.550308	0.5992
LRCM	-0.015791	0.020073	-0.786661	0.4573
C	2.011811	1.966152	1.023223	0.3403

R-squared	0.995995	Mean dependent var	8.200698
Adjusted R-squared	0.989702	S.D. dependent var	0.785409
S.E. of regression	0.079702	Akaike info criterion	-1.956425
Sum squared resid	0.044466	Schwarz criterion	-1.359937
Log likelihood	30.58604	Hannan-Quinn criter.	-1.855476
F-statistic	158.2688	Durbin-Watson stat	1.494958
Prob(F-statistic)	0.000000		

Source: Authors' Computations, 2021

The previous growth of small and medium enterprise [LOGSMEG -1] of the economy is highly significant with a positive relation to the current LOGSMEG. For every 100% increase in the previous LOGSMEG current LOGSMEG will increase by 70.8%. Although it is significant at 10%. The lag of commercial bank credit to the private sector [LOGCMCRP-1] has positive impact on the growth of the private sector development but the current [LOGCMCRP], has an inverse relationship. This is as a result of the commercial banks inability to give loan to private sector without desired collateral in the economy. Both the[LOGCBLE-1] & [LOGCBLE] have inverse relationship to the growth of small and medium scale business which is also as a result of the commercial bank in the economy, not giving necessary support to small and medium scale enterprise.

The percentage of the commercial bank loan to the sector is just 0.17% of every 100% increase of the sector. Monetary policy rate is positively related but very low contribution to the sector development. Inflation rate, exchange rate and lending rate of the commercial bank are all inversely related to the sector development. Reserve Requirement (RR) has a positive relationship but insignificant effect on the growth of the sector. The R-square value shows that the independent variables explained 99.5% of the sector. The adjusted R-square shows that if other variables that affect the small and medium enterprises are factor into the model, the model will still explain 98.9%. The F-statistic shows robustness of the model at 1% level of significant. Durbin Watson statistic estimates that the model is reliable.

5. CONCLUSIONS AND RECOMMENDATIONS

To have a virile economy through small and medium scale enterprises, the financial sector has a lot to do. The funds to champion the noble course must not just come from the banking sector but must come cheap and accessible by the players in the sector. The monetary policy rate (MPR) has a positive effect on the growth of the SMEs but the lending rate of commercial banks (LRCM) is negative to the growth of the sector. The percentage of commercial bank to SMEs both the past and current are inversely related to growth of SMEs. It is therefore recommended that the lowering of Monetary Policy Rate (MPR), Reserve Requirement (RR) and inflation rate (INFR) will improve the fortunes of SMEs in the country and enable it to contribute meaningfully to the GDP of the country.

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