
DOES INTEREST RATE AFFECT THE GROWTH OF SMALL AND MEDIUM SCALE ENTERPRISES (SMEs) IN NIGERIA?

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ABSTRACT

This study sought to evaluate the effect of interest rate on the growth of SMEs in Nigeria, using annual time series data from 2000-2019. The data for the study was 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 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%. The study recommends that MPR and INFR should be reduced to bring about a reduction in LRCM that will improve financial capacity of SMEs, thus lead to an increase in the contribution of SMEs to nation's GDP.

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

INTRODUCTION

Small and medium scale enterprises (SMEs) are pivotal to the growth of national and regional economies. Hence, they are acknowledged as the engine of economic growth that promote economic well-being particularly in developing and emerging market economic through employment generation and poverty alleviation. SMEs contributes to GDP, increases revenue from taxes, develops human capacity, fosters entrepreneurship culture, generates income, and improves the quality of life of members a society (Adeyemi, 2011). Ateke and Nwiece (2017) add that SMEs fundamental components of the economic fabric of developed and emerging economies that stimulate economic growth, promote innovation and enhance prosperity. SMEs are perhaps, the oldest form of business in the world as many large organisations began as SMEs (Onyenebo, 2018; Qureshi, 2010).

According to United Nations Industrial Development Organisation (UNIDO, 2002), SME plays a critical role in economic integration of developing countries through economic liberalization, deregulation and democratization. SMEs accounts for 90% of global businesses, employing between 50% – 60% of the working population, and contribute between 50% and 60% of value added. Developed countries have leveraged on SMEs to attain economic greatness (Olaoye et al., 2018). Operates majorly in the informal sector of an economy, the importance of SMEs to economic growth and development is well documented.

The growth and sustenance of SMEs is affected by myriad factors, chief of which is funding (World Bank, 2017). The funds needed by SMEs are provided by the banking sector at a cost commonly referred to as interest. Globally, the banks serve as intermediaries for mobilizing funds from surplus units and making them available to deficit units 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 et al. (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 monetary authorities to regulate demand and supply of money. Interest rate is an important term in lending activities of banks; it is of great concern to lenders, borrowers and economist, as it plays important roles in economic growth and development (Bhattarai, 2015). Acha and Acha (2011) contended that one of the benefits of interest rate is its equilibrating influence on supply and demand of money. It determines how money moves in the economy between borrowers and lenders (Olaniyan et al, 2020).

Previous studies by Randal (1998); Brock and Rojas-Suarez (2000); Gelos (2006); Chirwa and Mlachila (2004) and Crowley (2007) as cited in Folawewo and Tennant (2008) show 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 because it stagnates economic growth and hinders expansion of businesses. Developing nations have maintained a double digit interest rate which makes cost of borrowing from banks relatively high compared to a single digit in many developed countries. In developed economies 98% of all enterprises are SMEs, employing 80% of labour 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). These statistics suggests that lending to SMEs makes meaningful impact to when they are long-term oriented. However, lenders always preferred the opposite because of the volatile, high mortality rate and high risk involved in lending to SMEs.

A healthy and vibrant financial system births a robust economy (Gakunu, 2007). Commercial banks facilitate the enthronement of robust economies through their financial aggregation functions (Andres &Vallelado, 2008, cited in Tarus & Manyala, 2018). Funding is key to the growth and sustenance of any enterprise, irrespective of size, nature of business or age. The problems associated with SMEs financing have received tremendous attention from researchers and policy makers. Taiwo et al. (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 success of SMEs in Nigeria. These problems are further compounded by lending policies of banks, government policies, environmental factors and infrastructure.

Nonetheless, commercial banks have been a major source of finance for SMEs. Evboumwan et al. (2013) reports that 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%. The

Central Bank of Nigeria (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, representing 16.60% of loans disbursed in that year, went to SMEs. In 2003, a total of ₦90, 176.50 million was given in loan to SMEs and this rose to ₦354, 605.70 million in 2019.

The survival rate of SMEs has been a contending issue in Nigeria. Obiwuru et al. (2012) and Basil (2005) reveals that about 80% of SMEs die within their first five years of establishment, a smaller percentage survive the first five years but goes into extinction in the sixth to tenth year while five to ten per cent survive, thrive and goes into maturity. Access to credit facility has been a major constraint limiting the growth of SMEs in relation to its contribution to gross domestic product (Lam & Liu, 2020; Opara, 2011; Onyenebo, 2018; Basil, 2005; Ayuba & Zubairu, 2015). 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 (Aremu & Adeyemi, 2011). High interest rate discourages operators of SMEs from accessing these loans to finance their businesses; low interest rate attracts investment and causes expansion of economic output (Ojeaga & Odejimi, 2014).

There is indeed no controversy about the importance of SMEs to the wellbeing of nations; and their funding has attracted the attention of scholars and policy-makers. Previous studies focused on explaining drivers of growth of SMEs less on interest rate, and more on internal competences and sundry environmental variables. With a view to joining the discourse on growth of SMEs and contribute to the growing body of knowledge on the topic therefore, this paper examines the effect of interest rate on growth of SMEs in Nigeria.

CONCEPTUAL REVIEW

Small and Medium Scale Enterprises in Nigeria

There is no known evidence to determine the origin of SMEs in Nigeria; and 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 among 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 categorizes micro businesses as enterprises that have less than 10 employees and 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.

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. The

National Bureau of Statistics (NBS, 2017) reported that Nigeria has a total of 41,543,028 micro small and medium enterprises in operation. The breakdown shows that micro enterprises consist 99.8% while medium enterprises represent 0.2%. In another study, 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 growth of national income in terms of employment generation and poverty reduction (Taiwo et al, 2016).

Interest Rate Regime in Nigeria

The role of interest rate in the economy cannot 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 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 Nigeria's 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 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 shortchanged 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 be pivotal to economic growth, granting loans to vital sectors of the economy at a reduced interest rate, thus reducing cost of credit which contributes to high cost of production. The interest rate 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 et al. (2017), the size of loan that financial institutions extend to borrowers is limited to the size of risk involved.

Interest Rate and Small and Medium Enterprises

Ajayi and Oloyede (2000) expressed that interest rate is important 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 flow of funds. High interest rate encourages savings and 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 to stagnate the growth and sustenance of SMEs, and forestall their contribution to the economy. Conversely, SMEs will expand faster and better if interest rates are low (Rahman et al., 2017). Cost of finance constitutes 35% of problems faced by SMEs (Beck, 2007); as large organizations have better advantage to negotiate for lower interest rate than small businesses. OECD (2019) revealed that interest rates on loans obtained by SMEs are higher than that of large firms by 4% points. Berger et al. (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).

Ikom and Chukwu (2018) noted that SMEs GDP was 1127.23 million in 2002; 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 SMEs in 2006 was 1471821.60; 1837372.44 in 2010 and declined to 1782093.78 in 2017. CBN (2019) reveal that while 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 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.

SMEs have the potential to achieve higher productivity and increase their contribution to national income if relevant authorities address their funding challenge. Specifically the Central Bank can do a lot more in this regard being the sole regulator of the market. Calice et al. (2012) perceived SMEs as largely under served by existing banks. Hence 85% of SMEs have bank accounts but cannot obtain a bank loan (Terungwa, 2011), mostly due to high interest rates that force them to solicit for financial help from sources other than banks (Gbandi & Amisah, 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 do 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 CBN must 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).

THEORETICAL REVIEW

There exist different theories of interest rate ranging from the classical theory, neo-classical theory, the productivity theory and the Keynesian theory. The General Theory of Employment, Interest and Money published in 1936 by John Maynard Keynes provided the basis for development economics. Keynes (1936, as cited in Appelt, 2016) asserts that the rate of interest determines the level of employment, affects the supply of money and investment processes in the economy. Interest rate plays a vital role in reallocating productive resources. In Keynes theory, interest is referred to as the “market interest rate and the reward for parting with liquidity for a specified period.” According to Keynes, market interest rate is influenced by the supply and demand for money. Keynes introduced the concept of liquidity preference to distinguish between

transactionary motive, precautionary motive and speculative motive for holding money. Transactionary and precautionary motives are influenced by level of income while speculative motive depends on interest rate. Thus, 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).

EMPIRICAL REVIEW

Olaoye et al. (2018) examined commercial banks' lending to SMEs and Nigeria economy from 1998 to 2017. The result obtained reveals that inflation rate exert a positive and insignificant impact on GDP. Nyumba et al. (2015) revealed that there is a positive significant effect of interest rate on performance of SMEs in Kenya and recommends that funding programmes and schemes should be instituted to achieve greater growth in small and medium scale enterprises. Maalim and Gikandi (2016) assessing the effects of interest rate on credit access SMEs; and found that interest rate is related to the level of credit accessed by SMEs as a reduction in interest rate would lead to an increase in the demand for credit.

Olatunji and Ibukun-Falayi (2018) in their study assessed the effect of interest rate regulation on credit administration to SMEs in Nigeria from 1994-2013. 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. Similarly, Sawaya and Bhero (2017) investigating the role of interest rate on growth of SMEs in Mozambique and found that though high interest rate deters growth of SMEs, there are numerous other factors that affect SMEs rather than interest rate. In another study, Okpara (2014) examined factors that limit growth and survival of SMEs in Nigeria. The study found 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. Other studies, including Kayode et al. (2020), Iliyasu (2019), Kisseih (2017) show that interest rate affects growth and sustainability of SMEs.

METHODOLOGY

This study used secondary data sourced from World Development Indicator (WDI), Statistical Bulletin of Central Bank of Nigeria and National Bureau of Statistics. 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

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

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

$$SMEG_t = S_0 + CMCRP_t + CMCLE_t + PCMLE_t + MPR_t + INFR_t + EXR_t + RR_t + LRCM_t + \sim_t \dots\dots\dots 2$$

$$SMEG_t = S_0 + SMEG_{t-1} + CMCRP_t + CMCLE_t + PCMLE_t + MPR_t + INFR_t + EXR_t + RR_t + LRCM_t + \sim_t \dots\dots\dots 3$$

$$LnSMEG_t = S_0 + S_1 LnSMEG_{t-1} + S_2 LnCMCRP_t + S_3 LnCMCLE_t + S_4 PCMLE_t + S_5 MPR_t + S_6 INFR_t + S_7 EXR_t + S_8 RR_t + S_9 LRCM_t + \sim_t \dots\dots\dots 4$$

$$\Delta LnSMEG_t = S_0 + S_1 \sum \Delta LnSMEG_{t-1} + S_2 \sum \Delta LnCMCRP_t + S_3 \sum \Delta LnCMCLE_t + S_4 \sum \Delta PCMLE_t + S_5 \sum \Delta MPR_t + S_6 \sum \Delta INFR_t + S_7 \sum \Delta EXR_t + S_8 \sum \Delta RR_t + S_9 \sum \Delta LRCM_t + \sim_t$$

DATA ANALYSIS AND RESULT

Table 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

Source: output of data analysis (2022)

Table 1 shows the details of descriptive statistics. In summary, Table 1 shows the dependent and the independent variables. It shows SMEs 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 2: Stationary Test

VARIABLES	ADF@LEVEL	ADF@1 st DIFF	ADF@ 2 nd 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: output of data analysis (2022)

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 than 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 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: n=35	
Actual Sample Size	19	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: output of data analysis (2022)

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: ARDL Long Run Co-efficient

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

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 evaluated: 8

Selected Model: ARDL(1, 1, 1, 0)

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.

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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