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Interest Rate and Development of SMEs in Delta State.

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Abstract
The dynamic role of Small and Medium Scale Enterprises (SMEs) in developing countries have been highly emphasized. These enterprises have been identified as means through which the rapid industrialization and developmental goals of these countries can be realized. The study adopted survey research design. Target population comprised 2388SMEs in the three Senatorial districts in Delta State. Purposive sampling technique was adopted in selecting the SMEs and sample size of 477 was generated through Krejcie and Morgan Formula (1970). Structured questionnaire was adopted, validated and used for data collection. Cronbach's Alpha coefficients for the constructs ranged from 0.867 to 0.936. The response rate was 73%. Data were analyzed using descriptive and inferential (Linear and multiple regression) statistics. Interest rate has positive significant effect on SMEs development in Delta State($F = 300.823$, $(R) = .682$, $(R^2) = .465$., p value $= .000<0.5$)The study recommended that government macro-economic policies of interest rate, plays a pivotal role in SMEs development, hence, government should provide favorablemacro-economic policies that will aid low-interest rate and SMEs funding.

Key Word:*Interest Rate, Development, Sme's*

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I. Introduction

According to Adekunle (2015), the importance of the Small-Scale Enterprises to Economic development of any country whether developing or developed cannot be overemphasized. Small Scale Enterprises considered to be one of the driving forces in economic development. They stimulate private ownership and Entrepreneurship skill, they are feasible and can adapt quickly to changing market, demand and supply situations they also generate employment, help diversity economic activities and make significant contribution to expert and trade. According to Adekunle (2015), the importance of the Small-Scale Enterprises to Economic development of any country whether developing or developed cannot be overemphasized. Small Scale Enterprises considered to be one of the driving forces in economic development. They stimulate private ownership and Entrepreneurship skill, they are feasible and can adapt quickly to changing market, demand and supply situations they also generate employment, help diversity economic activities and make significant contribution to expert and trade. According to the guidelines for accessing credit facilities for Small Scale Enterprises in Nigeria by R.K. Moruku (2012), "There is potential in Small Scale Enterprises to create employment, reduce underemployment and poverty, utilize local raw materials output expansion and transformation of indigenous technology. Others are those to reduce intermediate goods, promote even development and reduce income inequalities. Thus, they constitute a strategic choice in industrialization and economic development, even served as a new development aid model.

To ensure systemic stability, provide smaller, retail clients with protection and also protect them against monopolistic exploitation, there is a need to regulate interest rates. The interest rate has been defined by investorwords.com as a rate which is charged or paid for the use of money and is often expressed as an annualized percentage of the amount borrowed or deposited. The interest rate is a key part of the government's monetary policy. It is a significant determinant of the cost of capital for borrowers and an important measure of reward for savers. Thus, when the interest rate levels in an economy are right, they help to induce savings as well as stimulate investment spending and thereby promote growth. It is common to observe different patterns of interest rate structure in the economic history of a nation. The Interest rate charged by banks could be regulated to encourage saving mobilization and ensure adequate investment in SMEs for rapid economic growth. The Central Banks of countries utilize regulation of interest rate to increase investment and consumption in the economy.Awoniyi (2017) asserted that for any developing country to grow and develop economically, greater attention and concentration must be given to SMEs sector. The SMEs sector is a viable and important means to utilize the locally available resources, develop local technology for production for local consumption and export.One of the major challenges of interest rate is that despite all the policies aimed at helping SMEs to move out of their financial entanglement, SMEs are still perplexed by various issues. These range from trouble in getting to credit, to stringent advance conditions, short advance reimbursement period, reluctance of MFBs to fund a few areas of the SMEs and high interest rates(Kauffman, 2015).

Even where credit facilities are accessible, there exists little awareness just as high interest rates and short reimbursement period. It is likewise significant that some microfinance banks are against loaning to new organizations making it hard for entrepreneurs with business thoughts and innovation to begin(Tirimba, 2014). Incomprehensibly, some covetous banks play on the honesty and newness of their uneducated clients to make grand livelihoods over the unlawful charges and sharp exchanges adjacent to the entire charges paid by the clients. Routinely, the rate banks displayed to the borrowers during advance consultation progresses toward becoming hydra-headed after the banks goad them into the facilities(Fjose et al., 2017). In addition,Chinwewuba and Sunday (2015) noted that most Nigerian banks impose several fees in addition to the loan requested which is not in tandem with the Central Bank of Nigeria (CBN) rate as stated in section 23 of the Financial Institutions Act. This scares away SMEs and thus results in a continuous lack of funding for SMEs.

The climate for business operations in Nigeria has not provided effective support for the implementation of firm growth and development strategies within the firms. For instance, the ratio of private sector credit to GDP in Africa as at 2014 shows that Nigeria has one of the lowest rates among the countries. South Africa (151.1%), Namibia (49.66%), Kenya (34.14%), Botswana (31.02%), even neighboring countries such as Ghana (19.91%) and Cameroon (15.56) while that of Nigeria is 14.54%. This implies that private sector credit is more difficult to access in Nigeria than the other countries(Tirimba, 2014).

Afolabi (2013) asserted, though arguably, that one of the problems faced by SMEs operations in Nigeria is that government does not give a chance or consider them when making policy in that priority is given to large organizations. This may not be altogether true as can be observed, from 1987, governments in Nigeria have made divers efforts to promote SMEs through policies and programs. These might not have yielded expected results due to various bottlenecks such as level of literacy of the operators, apathy to banking facilities, lack of readiness to provide security for loans as well as institutional bottlenecks and corruption. Consequently, many SMEs in the country have continued to rely heavily on internally generated funds because of the inefficiency of interest rate regulation of SMEs in Nigeria which has tended to limit their scope of operation.

In addition, the significance of this research on factors affecting the performance of SMEs in Nigeria lies in the attempt to document the factors that are truly critical to development of SMEs but which have not been appreciated, recognized or factored into the various incentive schemes and in the management of the SMEs.Therefore, this research work is of immense benefit, not only to the government in terms of the appreciation of factors critical to SMEs development (interest rate) which have been overlooked, but also to the industries.This study, therefore, intended to examine the effect of interest rate regulation on credit extended to SMEs in Delta State, Nigeria.

II. Literature Review and Theoretical Framework

An interest rate is the amount received in relation toan amount loaned, generally expressed as a ratio naira received per hundred naira lent. The interest rate is also known as the bank prime rates.No matter how well a business performs, it depends on the economic environment of the country to be sustainable and prosperous. Economic variables such as interest rates can determine a company's success or failure. When interest rates go up, banks charge more for business finances. Businesses dissipate more of their earnings in servicing loans, contrived through financial institutions as a result of the increased interest rates. This decreases their disposable income (Berger et al. 2016). Some scholars found that Owner-managers would not launch new project or invest in expansion when interest rates are high. Camba-Mendez et al. (2016) revel that the opposite is true; in that when interest rates are low firms would borrow more voluntarily, invest in new ventures and make more returns. Some smaller banks would permit relationship lending to small firms by devising lending schemes that offer advantages to the small firms (Rahman et al. 2016). Conversely, larger banks argue that due to their size they offer additional advantages to small firms through the availability of specialized financial instruments such as factoring that allows small firms to avoid financial risks. Foreign banks on the other hand claim to bring in more competitive and innovative ways of lending techniques that benefit small firms (Beck et al. 2011).

The culmination and competition of these banks is intended to help curb the negative effect of high interest rates facing small firms. While the conventional belief is that smaller banks allow relationship lending and are more available for lending to small firms, nonetheless, small firms still face the crunch on prohibitive high interest rates (Rahman et al. 2016). Nevertheless, Due to the risk factor associated with small firms, financial institutions do impose 'safe' interest rates (which are always higher than normal lending rates) to cover themselves in case of default. In many African countries although SMEs form the largest number of banks' clients, but banks prefer to work with large multinational conglomerates and governments which offer less risk and higher returns, crowding out most of the private sector from the financial system (Gbandi& Amissah, 2015).

Kamunge et al. (2014) admit that if clients have limited funds to spend there would be little demand for goods and services from SMEs. In the long run, high interest rates can limit company sales, as money that could have been paid for SMEs goods and services is diverted to interest payments or savings.

A research by Rogerson (2018) on SME failures in South Africa revealed that out of a sample of 1000 entrepreneurs surveyed, 90 percent concluded that SME failure was brought about by the lack of managerial skills. This is true and much more endemic in Mozambique although there is no available literature to substantiate the exact magnitude of this fact. One other main challenge facing SMEs in Mozambique is the increase of market uncertainty (Cálice et al. 2012). In addition, SMEs face enormous problems in acquiring technology and adopting new innovative ideas in management and production of goods and services (Cálice et al. 2012). The micro and small enterprises sector in Maputo absorbs about 82 percent of the working population in the city, against a mere 8.5 percent in the medium and 9.5 percent of large and public enterprises (Noticias, 2013).

According to Fox and Sohnesen (2013), a large proportion of SMEs in Mozambique do not possess workshops or formal business stands, but operates their businesses from homes, with communal markets being the second most common operating area. Most SMEs offer services or produce low cost items needed by other households such as barber shops or making bricks, furniture, beer and charcoal (Jones & Tarp, 2012; Fox &Sorrenson, 2013). Similar to many other developing countries, the main challenge to SMEs growth and survivability in Mozambique is listed as lack of financial facilities (Jones & Tarp, 2012; Zimba, 2015). SMEs cannot access finance due to lack of collateral and arguably high lending rates (Jones & Tarp, 2012).

Carl (2001) in his study of the survival of small firm in developing countries posited that financial assistance to SMEs led to its survival in Africa and Latin America. While Godfried& Song (2016) in their investigation of financial mode available to SMEs in Ghana employed probit models. The study reported that small firms make use of credit from informal sector than credit from banks. Also, it established that many small firms relied on informal credit to finance their business. Furthermore, it revealed that credits from banks are more available to high profit-making SMEs than low profit-making SMEs. Their findings are in tandem with Ojo (1995) who analysed the importance of informal source of loan to the growth of small firms in Lagos State found out that informal source of credit contributed 60 percent of the overall source of financing. Okpara & Pamela (2007) disagree with Ojo (1995) but identified factors such as inadequate capital, mismanagement, inexperience poor infrastructural facilities, poor human development, and unavailability of statement of account and corruption as responsible for the death of SMEs in Nigeria. They went further to reveal that poor market research, low demand for goods and unnecessary withdrawal of money from the business account for personal use also lead to small business failure in the country. Oluba (2009) in his study of the contribution of SMEs to an economy of developing countries identified employment generation, enhanced raw materials utilization, rural development, entrepreneurship development, raising of domestic savings, relationship with large firms, evenly spread of investments are responsible for the growth of SMEs in developing economies.

Laderman (2008) established that lending has positive relationship with firm's level of competition, which is in line with the findings of previous empirical studies of other works conducted by Metropolitan Statistical Area. The result revealed that competition among the firms will make them reduce the price and as well as increase the supply of their product in order to increase sales.Similarly, Cetorelli& Strahan (2006) in their study of competition among lending institutions and industrial distribution of firms find out that external source of finance increases bank's competition. This is determined by the ratio of small firms in the industry. In their study of entrepreneurship as a solution to improving productive output of Nigeria, Ogunsiji&Ladamu(2010) highlighted that sustainable growth, pool of resources, people, market, capital, technology and organization are responsible for growth. They went further to say that these factors enhanced the relevance of entrepreneurial orientation. Furthermore, Deakins & Fred (2009) argued that entrepreneurship and small business are the main cause of innovation in both developed and developing countries. Marsh (2009) pointed out that lending to small firms is too risky due to the fact that collateral are not always available to SMEs to tender before the lending institutions and this posed a big challenge to SMEs growth in Nigeria. To Chepkwony et al (2009) the promotion of micro enterprises is due to the fact that it propagates economic growth and development in developing countries. However, Garlick (1997) identified capital as the challenge facing small and medium scale enterprises. In their study of the SMEs and its impact on output growth of Lithuania, Asta&Zaneta (2010) noted that decision-making model and integrated based financial system is needed to be effectively promoted.

Aremu& Adeyemi (2011) in their examination of the influence of SMEs on GDP growth indicated that most of SMEs die within the period of 5 years of its existence in Nigeria. The study also, posited that smaller percentage of SMEs windup within 6 and 10 year of its set up but only between 5 and 10 percent of young SMESs survive in Nigeria. The study identified factors that are responsible for the failure of small business in Nigeria. These factors are: irregular power supply, inadequate fund, poor available infrastructure, and poor knowledge of the market. It also include improper book keeping or poor records, poor business strategy, inability to separate business revenue from the profit, unavailability of plant and machinery, unavailability of man power and cut-throat competition (Basil, 2005).

Interest rate is the percentage of principal charged by the lender for the use of its money. The principal is the amount of money lent. As a result, banks pay you an interest rate on deposits. There are three types of interest rate. The nominal interest rate, the effective rate and the real interest rate. Higher rates mean higher borrowing cost, people will eventually start spending less. The demand for goods and services will drop which will cause inflation to fall. If interest rate decrease, lenders have the advantage by making more money from their customers with higher interest rate loans. The Classical Theory of interest rates defines interest rate as that element which equates savings and investment. In its view, investment is nothing but the use of investible resources which is supplied through savings where the rate of interest is provoked by the relationship between investment and savings. It can be regarded as the price of the investible resources (Economics Watch, 2010).

In their joint study, Chidi &Shadare (2011) empirically examined SMEs and human capital development in Nigeria. The study discovered that human capital has significant impact on Nigerian SMEs. The study advocated for an improvement in human capital need of SMEs in Nigeria. If enhanced, it will encourage the growth of SMEs in the country. Ismaila (2012) in his examination of SMEs and generation of employment in Nigeria employed the Binomial statistical analysis. The study found out that SMEs have not reduced the level of unemployment due to its inability to access to adequate capital. The study also discovered that almost all the SMEs sampled depend on fund from the informal sector as sources of finance to start their business. Afolabi (2013) employed ordinary least square to investigate small firms finance and output of Nigeria for the period of 1980 to 2010. The study reveals that wholesale and retail trade output, banks lending and exchange rate have positive impact on output growth in Nigeria but lending rate has negative impacts on economic growth. It asserted that bank lending promote output growth of Nigeria.

III. Methodology

The study adopted a descriptive survey design. The population of the study comprised of 2,388 members of staff of twenty Small and Medium Enterprises(SMEs) in Delta State, Nigeria.The sample size of the study is 477 members of staff drawn from the entire population of 2,388 in selected Small and Medium Enterprise in Delta State. Krejcie and Morgan (1970) was used to determine the sample size. Purposive sampling technique was adopted for the study. This has to do with the researcher choosing 20 Small and Medium Enterprises from a total of 2388 small and medium enterprises in Delta State. The justification for this is that the study focused only on identified seasoned SMEs owners in Delta State who were technically and operationally judged SMEs operators. The choice of these 20 Small and Medium Enterprises was based on their evenly distribution and engagement in nine (9) different types of manufacturing activities. Cronbach's Alpha coefficients for the constructs ranged from 0.867 to 0.936. The questionnaire was pilot-tested on a sample of 20 small scale traders in Anambra State.

The model for analysis is;

Y= f (X)

$y_1 = \beta_0 + \beta_1 x_1 + \mu$ …………………………………………………...equation 1

Where,

Y = SMEs Performance

X = Interest Rate

$\beta_0, \beta_1, \beta_2$ and β_3 coefficients of determination

μ = the error terms

IV. Discussion Of Findings

H_{01}: Interest rate does not have significant effect on SMEs development in Delta State.

Table 1: Effect of interest rate on SMEs development

Coefficients[a]						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**T**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	.655	.114		5.767	.000
	interest_rate	.786	.045	.682	17.344	.000
a. Dependent Variable: SMEdevelopment						

Table 4.2.10, F = 300.823,(R) = .682, (R^2) =.465. p value = .000 which is lesser than 0.05 level of significance. This means that since the p value which is .000 is lesser than the level of significance which is 0.05, therefore it can be said that interest rate has positive significant influence on SME development in Delta state. Going by this, the null hypothesis is rejected.Oteh(2010) and Banji (2007) in his study identified certain determinants of interest rate some of which are savings, investment, inflation, government spending amongst

others. SME operators expressed the fact that the country's inflation rate is taking its toll on their business. Precisely a mean score of 2.67 buttressed this fact. Also, banks interest rate was seen as not a hindrance to SME development in the country. Many respondents also expressed the fact that the country interest rate was a big determinant in terms of profit making. In taking a deep look into findings on SME development in Delta state, Oteh(2015) and Banji (2017) concluded in their study that interest rate of financial institution was a big determinant and that if the interest rate is high, there is every tendency that profit maximization will be very difficult. This prompted SMEs to result to family and friends to access loans to fund their business.

V. Conclusion and Recommendations

This study adds more to the knowledge and understanding on macro-economic policy and SME development. In the study, macro-economic policy was defined as the management of the nation's economy as a whole in order to foster a sustainable positive economic welfare. While monetary policies are the actions taken by the Central Bank of Nigeria (CBN) to regulate the supply of money and interest rates with the aim of controlling consumption and boosting the economy. The human resource strategies employed by SMEs should be such that will help the employees to understand and relate with the goals and objectives that can translate to employee productivity which is vital for SME development.In order to gain more knowledge on the understanding between governmentmacro-economic policy and SMEs development, future research could examine the different segments of SMEs development.

For the Nigeria economy to grow to attain the required socio-economic development, the SMEs must be given the necessary financial support to grow. The SMEs must be accorded the desired support of the government and financial institutions to grow rapidly to enable them contribute their quota to the development of Nigeria in general and Delta State in particular.

Based on the findings from the study, this recommendation is to be considered and implemented by relevant parties. Government should provide favourableinterest rate to SMEs in order to ensure increasing returns on investment and development for the SMEs. Since no business can strive without adequate funding.

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