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# THE EFFECT OF INTEREST RATE REGULATION ON CREDIT EXTENSION TO SMEs IN NIGERIA

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## *ABSTRACT*

*This study assessed the effects of interest rate regulation on credit administration SMEs in Nigeria in a twenty-year period (1994-2013). To accomplish this, the trends of interest rate and credits to SMEs were analyzed to determine the relationship between interest regulation and credit administration; then, the extent to which interest rate influences credits extended to SMEs and the nature of the effects were evaluated. Secondary data obtained from CBN statistical bulletins were employed for the study, which showed the average interest rates for the period of study. It also showed the trend of loans extended to SMEs. There was a positive, but weak correlation (9%) between both variables. Furthermore, the $R^2$ (0.8%) is indicative of how little the independent variable explained the changes in -dependent variable, thus interest rate regulation did not singly influence credit administration to SMEs. It was concluded that interest rate regulation did not have the significant effect on credit administration to SMEs, rather in concert with other determinants of credit administration (like inflation, access to credit, foreign exchange rate volatility, etc), it could have a strong positive effect. The study, therefore, recommended among other things that interest rate should be complemented with effective credit guarantee scheme, subsidized interest rates, and adequate financial education.*

***KEYWORDS:*** *Interest Rate Regulation, Production for Local Consumption, Credit Extension to SMEs, Entrepreneurship and Small Businesses*

## INTRODUCTION

### Background to the Study

Regulation has been defined as a law or administrative rule, issued by an organization to guide or prescribe the conduct of members of that organization, it is self-effecting, and not requiring any further intervention to become enforced (Online English Dictionary, 2015). These were captured in the description of LIewellyn (1996) where it is described as the supply of regulatory and supervisory services where the former is defined as prescriptive and the latter involves the exercise of allowable description, even when both services may be supplied through the same agency, thus involving a trade- off.

Financial Times Lexicon (2015) defines financial regulation as the laws and rules that govern what financial institutions such as banks, brokers, and investment companies can do. It is promulgated to protect investors,

maintain orderly markets and promote financial stability. With reference to the Nigeria financial system, broader definition of regulations can be said to encompass three main elements namely: the regulatory institution (i.e. the financial laws and policymakers); the instrument of regulation like financial related laws and policies; and, the participating members subjected to the jurisdiction of the law/policies.

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 (http://www.investorwords.com/2539/interest_rate.html#ixzz3fpIRGGan). The interestrate 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 (2010) 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 trade. SMEs development in agriculture is a means of sustainable food production, improve employment generation, production of industrial raw materials and ensuring food security in developing countries like Nigeria. SMEs has been reported by Ayozie and Latinwo, (2010), Safiriyu and Njogo (2012). To encourage entrepreneurship. In addition, Muritala, et al. (2012), posit that there, is the greater likelihood that SMEs will utilize labor – intensive technologies, thereby reducing unemployment, particularly in developing countries and these have an immediate impact on employment generation (Ariyo, 2008; Ayozie and Latinwo, 2010).

The problem bedeviling the SMEs in Nigeria is multifaceted, Ekpenyong (1997) and Utomi (1997) identified some as inadequate capital, high-interest rate, inaccessible credit facilities. Long-term development, institutional credit was known not to be available to SMEs because they are generally considered high credit risks by financial institutions. The interest rate of commercial and the hitherto merchant banks were not favorable to SMEs while microfinance institutions (MFI's) has expanded vigorously in a number of countries, but the interest rate on microcredits are very high, due to large administrative costs in relation to the scale of operations (Mahmoud, 2005).

This study, therefore, intended to examine the effect of interest rate regulation on credit extended to SMEs in Nigeria.

## STATEMENT OF THE PROBLEM

In spite of continuous policy strategies to attract credits to SMEs, most Nigerian SMEs has founded banks credits unattractive due to prohibitive interest rate and another cost of credits. For instance, as indicated in Central Bank of Nigeria (CBN) reports, almost throughout the regulation era, advances to the SMEs deviated persistently from the prescribed minimum. Furthermore, despite the enhanced financial intermediation in the economy following the financial reform of

1986, credits to SMEs as a proportion of total banking credits has not improved significantly (Mohammed, 2007; Akinboyo, 2007).

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.

Literature attempting to study these finance-related problems of SMEs have often ignored the role of interest charges and rates in fund sourcing by SMEs. Lots have been studied on collateralization of facilities from banks, giving rise to credit guarantee schemes, availability of loanable funds devoted to SMEs, leading to sectoral allocation of credits; financial literacy is tackled through seminars and workshops but not much has been studied on the relationship of interest rate to credit extension and the impact of interest rate movement on credit extension nor a consideration of the interest rate regulation on available funds for lending to SMEs.

**Research Questions**

The following questions were raised to guide this study:

- Is there any relationship between interest rate regulations and SMEs access to bank Credit?
- What are the effects of interest rate regulation on bank credits for Financing SMEs?

**Objective of the Study**

The general objective is to evaluate the impact of interest rate regulation on bank credit to SMEs in Nigeria.

The specific objectives are to:

- Examine the relationship between regulated interest rate and trends of credits to SMEs in Nigeria
- Evaluate the effect of interest rate regulations on the cost of credits

**Study Hypotheses**

The hypotheses of the study were stated in the null form.

- There is no relationship between interest rate and trends of credit to SMEs
- Interest rate regulation has no effect on the cost of credit

**Scope of the Study**

Time series data for 20 year period (1990 to 2013) was undertaken in respect of interest rates and bank credits extended to SMEs. SMEs access to and use of bank credits, as well as the perceived cost of borrowing, are considered in the study.

**Theoretical and Conceptual Framework**

The theoretical framework for this study is based on some economic theories. These theories include the classical theory of interest, the liquidity effect theory of interest and the loanable fund's theory of interest.

**The Classical Theory of Interest Rate**

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). Seth (2015) in reviewing classical theory described interest as the price paid for saving on capital and like other commodities is largely influenced by the forces of demand and supply.

Several writers on this concept describe it differently, e.g. Marshal conceived of interest rate as the price paid for the use of capital so that the rate of interest is determined by the equilibrium formed by the interaction of aggregate demand and supply for capital; Taussig observed that the interest rate is determined as a level where marginal productivity of capital equal marginal installment of savings; and, Keynes viewed interest rate as an influencing factor in the marginal propensity to save. Since savings are a function of income, Keynes concluded that the rate of interest is obtained at a point where the demand curve of capital at different interest rates intersects the savings curve at a fixed income level.

A major criticism of the classical theories was made by Keynes who described it as indeterminate as it depends on the intersection of demand- schedule and the supply-schedule. These schedules disclose the relationship of investment and savings to the rate of interest. Interestingly, this criticism affects the Keynesian model also (Hansen, 1951). This, also provide a basis for the introduction of regulation of interest rates.

**Liquidity Effect Theory**

Duff (2015), explained that when a nation's economy is in a recession the monetary authorities, in the course of regulating the economy, adds money to the system to make credit more easily available. Easy credit brings about greater economic activity and this is called the liquidity effect. The term was coined by Milton Friedman in 1969 to explain how expansionary monetary policy influences interest rates, income, and inflation. The expansionary policy makes a lot of money available and so interest rates go down. Low-interest rates encourage business and personal borrowing because the cost of borrowing money is less expensive. Businesses borrow to finance new plant and equipment, new hires and expanded inventory. Individuals borrow to finance purchases of homes, cars, appliances, clothing, and vacations. Business expansion and increased consumer purchases results in more business activity, which in turn result in more employment.

Conversely, Economist John Maynard Keynes in his liquidity preference theory explains that people value money for both "the transaction of current business and its use as a store of wealth." Thus, they will sacrifice the ability to earn interest on money that they want to spend in the present, and that they want to have it on hand as a precaution. On the other hand, when interest rates increase, they become willing to hold less money for these purposes in order to secure a profit.

Another view, which follows from Fisher's equation, is that money and interest rates are positively related. Thus, increasing the interest rate requires an increase in the rate of money growth. The equation states that the nominal interest rate equals the real interest rate plus the expected rate of inflation (Fisher, 1986). If monetary policy does not affect the real interest rate (and errors in inflation expectation is ignored) then the fisher equation implies that higher nominal

interest rates are associated with high money growth rates, the fisher equation suggests that an increase in interest rates requires an increase in the money growth rate. This is called the Fisher equation view.

**The Loanable Funds Theory**

The loanable-funds theory of r is an extension of the classical savings and investment theory of r. It incorporates monetary factors with the non-monetary factors of savings and investment. The theory is associated with the names of Wicksell and several other Swedish economists and the British economist D.H. Robertson. The theory holds that the rate of interest is determined by the demand for and the supply of funds in the economy at that level at which the two (demand and supply) are equated. Thus, it is a standard demand-supply theory as applied to the market for loanable funds (credit), treating the rate of interest as the price (per unit time) of such funds (Sen, 2015).

**Conceptual Clarification of Interest Rate**

The Interest rate is the amount of interest paid per unit of time expressed as a percentage of the amount borrowed. The cost of borrowing money, measured in Naira, per year, per naira, borrowed, is the interest rate. Interest rates differ mainly in term/maturity. When maturity and liquidity together with other factors are considered, many different financial instruments and so many different interest rates will emerge (Anyanwu, 1997). Interest rates can either be nominal or real.

The nominal interest rate can be measured in naira terms, not in terms of goods. The nominal interest rate measures the yield in naira per year, per naira invested while the real interest rate is corrected for inflation and is calculated as the nominal interest rate minus the rate of inflation (Pandey 1999).

**Small Scale Enterprises**

The term small and medium scale enterprises (SMEs) have no generally established definition. Musa (2013) noted that the definition and criteria for the classification of an enterprise as small, medium or large vary from one country to another, depending on whether it is developed or underdeveloped country.

A small business, for example to one may be on large – scale business to another, SMEs in Nigeria, as defined by small and medium industries equity investment scheme (SMIEIS), are enterprises with a total capital employed not less than N 1.5 million, but not exceeding N200 million, including working capital, but exceeding the cost of land and/or with a staff strength of not less than 10 and not more than 300.

One of the major impediments to the development of small scale in Nigeria is access to credit from financial institutions (banks) and its relative cost (interest rates) this position is underscored by Owualahi (2004) when he opined that the problem of credit availability is a common phenomenon affecting SMEs irrespective of industry of industry. Though

In varying degrees, the submitter that both the availability and cost of credits are of great concerns to them SMEs.

Similarly, Ojo (2004) argued that the interest rate to invest in production activities which should normally be reduced with lower cost in many countries.

Dada (2004) noted that the consistently repeated complaint of Simes about their problems regarding access to finance is a highly relevant constraint that endangers the development of the sector in Nigeria. And analyzed the effect of

the credit on SMEs development using ordinary least square old technique to estimate the regression modem, the findings revealed that the interest rate and others rate exchange rates exhibit adversative effect on SMEs development.

Onakoya, Fasanya and Abdulrahman (2013) examined the impact of credit facilities to small-scale enterprises on economic growth using quarterly time series data the study revealed that loan to small-scale entrepreneurs have a positive impact on the economic performance and conclude that access to capital or finance is one of the necessities for successful entrepreneurial development.

Olukayode and Somoye 2013 also assessed the impact of finance on SMEs in Nigeria using endogenous grow framework, the results shows that interest rate, and other relevant factors are significant to entrepreneurship growth in nigeria. The paper recommends the formulation of effective authorities should intervene indirectly by reducing monetary policy rates mpr which will directly reduce the transaction costs of money to entrepreneurship and industrial sectors.

**Concept of Interest Rate**

An interest rate is the amount received in relation ton an amount loaned, generally expressed as a ratio naira received per hundred naira lent. The interest rate is also known as the bank prime rates. There are different views on the determination of interest rate. These views vary because of differences of opinion as to whether interest rates are determined in the money or real terms amongst others. Some of these theories have found explanations among the so-called classical theory of interest, the Keynesian Liquidity preference theory of interest, the loanable funds theory of interest etc

The interest rate is one of the factor cost in the manufacturing process, therefore, any increase in the indices would be automatically reflected in price elasticity of the demand. Interest rates play two main functions in an economy to encourage financial savings and to induce investment spending.

First, interest rates as turns on financial assets serve as incentive to savers, making them differ present consumption in the future. The relevant interest rates in this case are the deposit rates, corrected for price inflation. Second, interest rate, being a component of cost of capital, affects the demand for and allocation of loanable funds.

**Factors Affecting Interest Rate in Nigeria**

A number of factors influence the behavior of interest rates, prominent among these are; savings, investment, inflation, government spending, monetary policy and expected rates of devaluation. In a market system, the demand and supply determine the interest rates, which means that, an increase or decrease in supply or demand will influence the level of interest rate. Inflation being another factor affects the level of interest rate. Nominal interest and inflationary expectation, is a function of the real interest rate.

The expectation being about influence in interest rate movement even through demand and supply of capital remains constant. Hence, lenders tend to increase the real rate of interest by the expected rate of inflation in order to compensate for the loss in real values of money. Borrowers in contrast, will borrow more when it is realized that goods purchased through the loan will appreciate to compensate for expected inflation.

Government fiscal operations influence interest rates, on that demand for credit to finance its deficits crowds out the private sector, particularly when the deficits are financed by the banking system. In addition, monetary policy through

expansions and contractions in money stock can influence interest rates. If the money supply increases with the demand for money remaining constant, short-term interest rate may decline restrictive monetary policy may lead to the rise in interest rate while an expansionary policy may result in lower interest rates.

In addition, sustained depreciation of the exchange rate leads to speculative activities in the foreign exchange market such that expectations about future depreciation and inflation affect pricing including interest rate decisions of economic agents.

**Interest Rate Deregulation**

This is the systematic removal of regulatory controls which may be considered inhibitive of orderly growth, competition and efficient allocation of interest rate.

Nigeria at different times witnessed so many interest rate swings in different sectors of the economy. Prominent among the preferred sectors were the agricultural, manufacturing and solid mineral sectors which were accorded priority and deposit money banks were directed to charge preferential interest rates on loans to encourage the development of small-scale entrepreneurship which is a catalyst for economic development (Udoka 2000).

The above was followed by the regulated interest rate regime under the financial sector liberalization, financial sector reform started in Nigeria with the deregulation of interest rate in August 1987 (Ikhide and Alawade, 2001) where tighter control interest rates was removed to enable banks charge market rate of interest and pay competitive rates to their customers.

This, according to Mekinnon (1973) and Shaw (1973) ignited financial repression which occurs mostly when a country imposes a ceiling on deposit and lending nominal interest rate at a low level relative to inflation. According to Nyong (2007); Nigeria government has been pursuing a market determined interest rate which does not permit a direct state intervention in the economy. In 1994, interest rate was also deregulated, it was said that there was a high rate of variation and higher rate under the complete deregulation. Deposit rate was set up at 12 percent per annum while ceiling of 21 percent per annum was fixed for lending. It was equally modified in 1995 for flexibility.

In October 1996, interest rate was fully deregulated with the banks given freedom to determine the structure of the interest rate in agreement with their customer. The Central Bank of Nigeria (Apex bank) retained the discretionary power to intervene in the issue of the money market. In 1998, there was a complete elimination of lending rate differentials among economic sectors.

## METHODOLOGY

**Research Design**

This research is descriptive, attempted to find answers to research questions and test hypothesis. The design was considered suitable to resolve the issues identified in relation to variables of the study

**Data Collection Methods**

Secondary sources of data shall be consulted for relevant data. These sources include the CBN, National Bureau of statistics and National Association of small scale industrialists etc.

**Variables of Study**

The variables in this study are:

- Lending Interest rates
- Amount of credit extended to SMES

**Method of Data Analysis**

**Objective 1:** The relationship between regulated interest rates and credit extended to SMEs is examined by the use of Pearson Product Moment Correlation Coefficient (PPMCC) to show the direction and extent of the relationship while the hypothesis is tested at 5% level of significance.

**Objective II:** Evaluate the effect of interest rate regulation on the cost of credit to SMES. To estimate the cost of credit, consideration is given to the average interest charged on SMES borrowings (in the light of security needed, riskiness, going concern, and succession issues, as well as viability checks and long term solvency tests). Then the amounts of credit extended were considered. These variables were modeled into an Ordinary Least Squares (OLS) Regression.

## RESULTS AND DISCUSSIONS

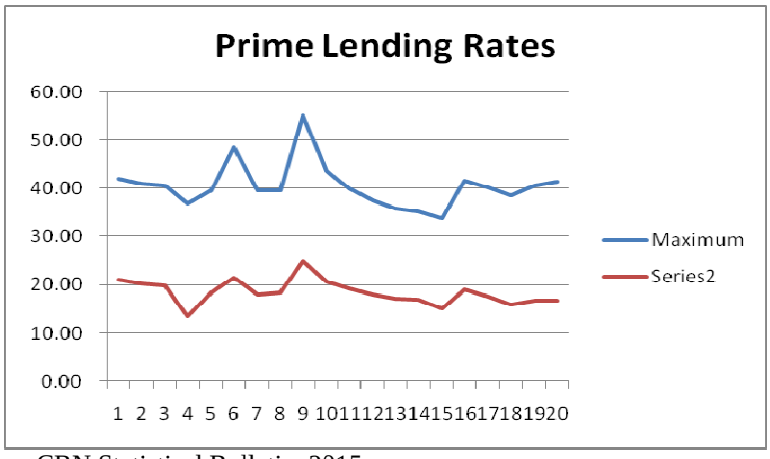
The statistics in relation to lending rates, amount of credit extended to SMEs is shown in table 1 and depicted graphically in figures 1-3.

**Table 1: Banks' Loans to Small Scale Enterprises and Interest Rates**

| Year | Commercial Banks Loans To Small Scale Enterprises (N' Million) | Interest rates | | | | |
|---|---|---|---|---|---|---|
| | | Prime[1] | Maximum | Total | Midpoint(x) | |
| **1994** | 20,552.50 | 21.00 | 21.00 | 42.00 | 21.00 | |
| **1995** | 32,374.50 | 20.18 | 20.79 | 40.97 | 20.49 | |
| **1996** | 42,302.10 | 19.74 | 20.86 | 40.59 | 20.30 | |
| **1997** | 40,844.30 | 13.54 | 23.32 | 36.86 | 18.43 | |
| **1998** | 42,260.70 | 18.29 | 21.34 | 39.63 | 19.82 | |
| **1999** | 46,824.00 | 21.32 | 27.19 | 48.51 | 24.26 | |
| **2000** | 44,542.30 | 17.98 | 21.55 | 39.53 | 19.77 | |
| **2001** | 52,428.40 | 18.29 | 21.34 | 39.63 | 19.82 | |
| **2002** | 82,368.40 | 24.85 | 30.19 | 55.04 | 27.52 | |
| **2003** | 90,176.50 | 20.71 | 22.88 | 43.59 | 21.80 | |
| **2004** | 54,981.20 | 19.18 | 20.82 | 40.00 | 20.00 | |
| **2005** | 50,672.60 | 17.95 | 19.49 | 37.44 | 18.72 | |
| **2006** | 25,713.70 | 17.26 | 18.70 | 35.96 | 17.98 | |
| **2007** | 41,100.40 | 16.94 | 18.36 | 35.30 | 17.65 | |
| **2008** | 13,512.20 | 15.14 | 18.70 | 33.83 | 16.92 | |
| **2009** | 16,366.49 | 18.99 | 22.62 | 41.61 | 20.81 | |
| **2010** | 12,550.30 | 17.59 | 22.51 | 40.09 | 20.05 | |
| **2011** | 15,611.70 | 16.02 | 22.42 | 38.44 | 19.22 | |
| **2012** | 58,799.70 | 16.79 | 23.79 | 40.58 | 20.29 | |
| **2013** | 65,072.70 | 16.72 | 24.69 | 41.41 | 20.71 | |

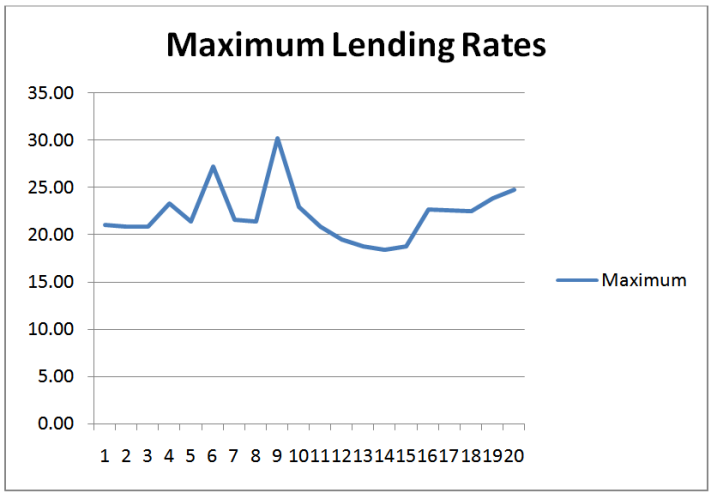
Source: CBN Statistical Bulletin, 2015

The data above are depicted graphically in Figure 1, which displays the prime lending rates in the period under review; Figure 2, which shows maximum lending rates in the period showing the element of regulation. Figure 3 shows the amount of credits advanced to SMEs in the period under review.



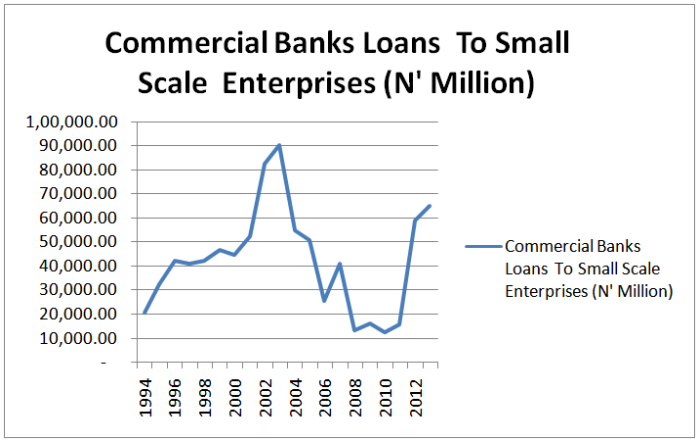

**Source:** CBN Statistical Bulletin, 2015.

**Figure 1: Prime Lending Rate**




**Source:** CBN Statistical Bulletin, 2015.

**Figure 2: Maximum Lending Rate**




**Source:** CBN Statistical Bulletin, 2015.

**Figure 3: Commercial Banks, Loans to Small Scale Enterprises**

Objective i. Examining the relationship between regulated interest rates and trends of credit extended to SMEs using Pearson's Product Moment Correlation Coefficient (PPMCC)

**Table 2: Correlations**

| | | Loans to Smes | Lending Int. Rates |
|---|---|---|---|
| Loans To Smes | Pearson Correlation | 1 | .090 |
| | Sig. (2-tailed) | | .691 |
| | N | 22 | 22 |
| Lending Int Rates | Pearson Correlation | .090 | 1 |
| | Sig. (2-tailed) | .691 | |
| | N | 22 | 22 |

Source: Researcher's Computation on SPSS16, 2015.

**Table 3: T Test**

| | Paired Differences | | | | | t | Df | Sig. (2-tailed) |
|---|---|---|---|---|---|---|---|---|
| | Mean | Std. Deviation | Std. Error Mean | 95% Confidence Interval of the Difference | | | | |
| | | | | Lower | Upper | | | |
| Loans To Smes – Lending Int Rates | 1.86695E1 | 21.93178 | 4.67587 | 8.94554 | 28.39355 | 3.993 | 21 | .001 |

The correlation coefficient of 0.09 or 9% is not sufficiently strong enough to serve as a predictor of variables, the association between them is low. The results of the t-test was 3.993 and is significant at 0.01, thus the null hypothesis were upheld.

Objective ii. Evaluate the effect of interest rate regulations on cost of credits.

In order to evaluate the effects of interest rate on cost of credits, the ANOVA was computed as shown in Table 4.

**Table 4: Model Summary ANOVA**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | R Square Change | F Change | df1 | df2 | Sig. F Change |
| 1 | .090[a] | .008 | -.042 | 22.42611 | .008 | .163 | 1 | 20 | .691 |

a. Predictors: (Constant), LENDINGINTRATES

**Table 5: ANOVA**

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 81.758 | 1 | 81.758 | .163 | .691[a] |
| | Residual | 10058.606 | 20 | 502.930 | | |
| | Total | 10140.364 | 21 | | | |

b. Dependent Variable: LOANS TO SMEs

The effects of interest rate regulation on the cost of credit showed $R^2$ of 0.008 and an F-value of 0.163 and a p value of 0.691. The $R^2$ indicated that only 0.8% of changes in the dependent variable are due to changes in the independent variables. The F value of 0.163 is not significant with a 0.691 at 0.05 level of significance.

This further shows that though the changes in both variables are not substantially different, the degree of association is not strong. Thus, the null hypothesis that interest rate regulation has no effect on credit

Extended to SMEs is upheld.

## SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

### Summary

This study assessed the effects of interest rate regulation on credit extended to SMEs in Nigeria in a twenty year period. To accomplish this, the trends of interest rate and credit to SMEs were compared to determine the relationship between them; then, the extent to which interest rate influences credit extended and the nature of effect were evaluated.

Secondary data obtained from CBN statistical bulletins were employed for the study, which showed the average interest rates for the period study. It also showed the trend of loans extended to SMEs. Results showed that there is a positive, howbeit weak correlation between both variables. This may not be enough to determine causality between them.

## CONCLUSIONS

It was concluded that interest rate regulation does not have any significant effect on credit extended to SMEs, rather in concert with other determinants of credit extended to identify sectors, it could have a strong positive effect.

## RECOMMENDATIONS

It is recommended that:

- To boost the performance of SMEs in Nigeria, interest rate regulation should be coupled with other incentives. SMEs could be granted soft loan by commercial banks such that a review of the stringent policies in the administration of credit to SMEs is relaxed. These could have a robust effect of SMEs on economic growth.
- Short, Medium and Long term loans could be structured for productive investments in SMEs with generous conditions as are available in the credit guarantee schemes. These SMEs form integral part of the growth and transformation process of an Agro-based economy like Nigeria and will increase employment and income with spillover effect on private savings and growth of the sector.
- Interest on deposits in commercial banks in the rural areas should be slightly higher in order to encourage rural people to save and thus gain access to credit for SMEs.
- The effect of inflation is negative on the growth of SMEs because it increases interest rate demanded by lenders.
- Provision of necessary infrastructures, to enhance the business environment for SMEs will reduce the cost of doing business and induce the growth of SMEs in Nigeria.

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