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Effect of Micro Lending Rate on SMEs Growth in Nigeria

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Abstract

Small and medium enterprises are acknowledged as the lubricants that wheel the socio-economic development of a nation yet their growth has been stunted by harsh fiscal and monetary policies. This study seeks to investigate the effect of micro financing interest rate on small and medium scale enterprises growth in Lagos and Ogun State, Nigeria. Primary data was employed using structured self-administered questionnaire with five-point Likert scale. The study adopted a descriptive survey research design to give an accurate description of the research variables. Yaro Yamane's sampling technique was used to select four hundred (400) SMEs from the total population of thirteen thousand four hundred and fifty-seven (13,457) in both Lagos and Ogun States, while stratified and proportionate sampling methods are used to determine the sample size of three hundred and fourty eight (348) SMEs in Lagos state and fifty-two (52) in Ogun state. Ordinary Least Square Regression (OLS) was used to estimate the regression. In the study, one hypothesis was formulated and tested. The results from the hypothesis tested revealed that a significant negative relationship exist between micro finance interest rate and SMEs growth in Nigeria at 5 per cent level (tc= -1.570731; p= 0.0009). Based on the finding, the study concluded that significant negative relationship exists between micro finance interest rate and small & medium enterprises growth in Nigeria. The study recommends that microfinance banks should charge moderate interest rate to SMEs without stringent collateral requirements to boosts SMEs growth in Nigeria.

Keywords*: Micro financing, Access to finance, Challenges, SMEs growth, Nigeria*

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Background to the Study

Small and medium enterprises (SMEs) play a vital role in promoting economic growth and creating employment, they have fuelled social development in a constantly changing economic environment. They also assist in regional development and export market expansion but their total contributions to the nation Gross Domestic Product (GDP), employment generation, technological advance is at low ebb (Bhuyan, 2016) due to bane of finance resulting from poor access to finance from the convectional banks in Nigeria (Osuji, 2017; Omondi, 2018). SMEs are regarded as antidotes for socio–economic development of developing, emerging and developed nations. They are remarked as the lubricants that wheel the economic development of nations and foster economic diversification (Alli and Udosen, 2019; Osotimehin, Jegede, Akinlabi, and Olajide, 2014). The sector has been recognized as an important pillar of economic growth all over the world and is characterized by operational flexibility. SMEs are the backbone of many economies in Sub-Saharan Africa (SSA) and hold the key to possible revival of economic growth and the elimination of poverty on a sustainable basis (Kibet, Kenneth, and Omwono, 2015). SMEs play a very important role in the development of a country because of its innovative entrepreneurial spirit. In many developing economies SMEs are regarded as the catalysts for economy viability of a nation but they are faced with significant challenges particularly in the area of finance that inhibit their growth and contributions to the economic development (Oluwaremi, Odelabu, Lawal and Obisesan, 2016). This was affirmed by Joseph, Kofin, Fanyel and Gaeten (2013) remarks that lack of access to credit and high lending rate by micro finance institutions stunted their growth.

Accessing finance has been identified as a key element for SMEs to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries (Akpan and Nneji, 2015). Corroborating the statement, Ajani (2014) cited in Samuel, Babatunde and Olajide-Arise (2014) posit that the latent capacity of the active poor for entrepreneurship would be significantly enhanced through the provision of micro finance services to enable them engage in economic activities and be more self-reliant, and in turn improve their abilities to create wealth. Empirical findings also revealed that SMEs in general lack the necessary financial services, especially credit from commercial banks because they are considered light weight and not credit worthy (Atsu, 2017), and this results to declining growth which is marked/marred by reactive plans and ill-health managerial practices. Most commercial banks and microfinance institutions do not offer credits facilities to SMEs due to their high mortality and failure rates, which makes it difficult for lenders to assess viability of their enterprises (SMEDAN, 2013). A major barrier to the rapid growth of SMEs is the dearth of both debt and equity financing (Akpan and Nneji, 2015). Subsequently, it was emphasized that the major indisputable challenge in all angles which is retrogressing SMEs growth is the lack of sufficient fund at a lower rate to set up and run small businesses (Danso-Abbeam, Ansah, and Ehiakpori, 2014; Omboi, and Priscilla, 2011). Most SMEs seeking bank loans face considerable credit constraints in that they receive credit much less frequently than larger ones at a higher rate (Garba, 2013). Nevertheless, a lot of commercial banks are not willing to finance small businesses because of the risks and uncertainties involved due to problem of movable assets, harsh economic environment, inadequate managerial skills and insufficient modern technology by small businesses which have led to a constant reduction in financing small businesses in the country (Taiwo, Onasanya, Agwu, and Benson, 2016).

SMEs are collectively the largest employers in many low-income countries, yet their viability can be threatened by a lack of access to such risk-management tools as savings, insurance and credit which cause series of negative consequences: economic and social opportunities are restricted; enterprise creation, growth and development are restrained (World Bank, 2013). Their growth is often stifled by restricted access to credit, equity and payments services. Instability in government policy has not been helpful to the sector, it resulted to greater destabilization and has indeed sent many SMEs to early fold-ups (CBN, 2012; Onyeneke, and Iruo, 2011; Oyedokun, 2015). Similarly, the exorbitant lending rates (ranging from 21% - 30% for commercial banks to as high as 48% - 60% per annum for microfinance banks) discourage SMEs from accessing bank loans and causes systematic failure (CBN, 2012). In spite of the intervention strategies of government and other development partners, through direct grants, lending or credit guarantee programmes, the growth, survival, and development of SMEs remains observably low because empirical evidence reveal that most SMEs had a high infant mortality rate between three to five years (Bhuyan, 2016). Accordingly, Yu (2012) acknowledges that 68% of all MSMEs in United States made their exit from business within 5 years, only 19% survived from 6-10 years, and merely 13% survived for more than 10 years. More so, in Europe, only 65% of SMEs survived for more than 3 years, and 50% survived for more than 5 years. SMEDAN (2012) remarks that lack of credit is one of the factors constraining the active poor that engaged in SMEs businesses, who possess potentials that if tapped, could lead to sustainable economic growth. Moreover, Addaney, Awuah and Afriyie (2016) authenticate that the rationale for denying the SMEs access to micro financing is due to financial regulations as contained in BOFIA Act (Banks and other Financial Act) which make it difficult for banks to sustain high costs and risks attached to SMEs lending. Yet, some of the challenges of the SMEs are induced by the operating environment (government policy, globalization effect, financial institutions, the removal of these attendant challenges is seemingly difficult and a daunting task demanding for total SMEs support (Osotimehin, Jegede, Akinlabi and Olajide, 2014).

Substantial numbers of extant literature and empirical research have been conducted both in the developed, emerging and developing nations on the effect of microfinance on SMEs: Akpan and Nneji (2015) reveal that the growth of SMEs depends largely on activities of small and medium enterprises operating in their vicinity; Babajide (2012), assert that micro financing as practiced in Nigeria by microfinance banks do not enhance growth and expansion capacity of SMEs. Further findings reveal that, the growth of SMEs is not just dependent on accessing microfinance loan but accessing the right size of loan at the right time. However, Oduyoye, Adebola, and Binuyo (2013) indicate that the services of micro finance banks and SMEDAN did not promote the growth of small business enterprises; While, Omondi (2018) conclude that microfinance services significantly influenced the financial performance of SMEs. However, Werigbelegha, Chukwunulu, and Ojukwu (2018) averred that the activities of microfinance institutions have not significantly contributed to the growth and development of Small and Medium scale Businesses (SMBs) in Nigeria. Obokoh, Monday, and Ojiako (2016) also submitted that microfinance lending gives a positive contribution to the development of SME's. Akpan and Nneji (2015) concluded that microfinance banks impact positively on the performance and growth of SMEs. Ndife (2013), also asserted that microcredit is a major factor that affects SMEs performance. It has been observed from the deluge of literature that previous studies on micro financing and SMEs growth focused on the general contributions of micro finance banks and SMEs and their findings were inconclusive. This clearly shows that critical evaluation of the significant effects of microfinance interest rate and SMEs growth has not been done particularly in the South-South region of the country. This serves as gap that this study seeks to fill by investigating the effect of micro financing interest rate on SMEs growth. in Lagos and Ogun States in Nigeria.

Research Questions

Does significant positive relationship occur between microfinance interest rate and SMEs growth in Lagos and Ogun States, Nigeria?

Statement of Hypothesis

H0: There is no significant positive relationship between microfinance interest rate and SMEs growth in Lagos and Ogun States, Nigeria.

Review of related Literature

Small and Medium Scale Enterprises (SMEs) has been in existence for over six decades during the colonial era (CBN, 2012) in Nigeria. Small and medium enterprises (SMEs) sector has emerged as a highly vibrant and dynamic sector of a nation economy (Bhuyan, 2016). The sector has registered a consistently higher growth rate than the overall manufacturing sector and plays a dual role since the output produced by SMEs is not only about final consumption but also a source of capital goods in the form of inputs to heavy industries (Ravi and Roy, 2014). SMEs regarded as the backbone of many economies in Sub-Saharan Africa (SSA) and hold the key to possible revival of economic growth and the elimination of poverty on a sustainable basis (Dennis, Achesa, and Gedion, 2015). SMEs are the engine of growth and catalyst for socio-economic transformation of any country, especially in a developing country like Nigeria. They are a veritable vehicle for the achievement of national macro-economic objectives in terms of employment generation at low investment cost, and enhancement of apprenticeship training (Vanguard, 2017). SMEs have contributed immensely to the growth of Nigerian economy and national objective of generating income and providing a source of livelihoods for the majority of low-income households in the country (Nkuda, 2016). These significant contributions of SMEs and the fact that they act as a catalyst for economic progress motivated the Nigerian government through CBN to establish the microfinance banks in 2005 to facilitate the promotion and growth of SMEs through loan scheme (Danso-Abbeam, Ansah, and Ehiakpor, 2014).

It is obvious that there is no universal definition of SMEs. Some countries define SMEs according to number of employees; others define them based on the level of assets or turnover or both. However, most definitions are based on a mix of the above parameters. This creates a definite problem for SMEs operators. Lack of proper definition makes it difficult for SMEs to benefit from government-assisted programmes meant for the sector. Ajose (2010) cited in Oyedokun (2015) defined small and medium scale enterprise as an enterprise that has an asset base (excluding land) of between N5 million and N500 million, and labour force of between ten (10) and three hundred (300) in its employment. The strategic roles of SMEs in Nigeria is evidence by provision of 70% of industrial employment and 60% agricultural employment coupled with innovativeness (Abubakar and Yahya, 2013). There are an estimated 37,067,416 million micro, small and medium enterprises (MSMEs) in Nigeria, out of which over 36. 9 million are Micro-Enterprises, 68,168 were Small Enterprises (SE), while 4.7 million were Medium Enterprises (SMEDAN, 2013). The agency affirms that SMEs represent 96% of the businesses in Nigeria and contribute 84.02% of national employment. In nominal terms, the sector contributes an estimated 46.54% to the nation's Gross Domestic Product, Thus, growth in the SMEs sector is directly linked with growth in the Nigerian economy and in the level of employment. Abosede, Hassan, and Oko-Oza (2017) remarks that SMEs is strategically positioned to absorb up to 80% of jobs in Nigeria, improve per capital income, increase value addition to raw materials supply, improve export earnings and step up capacity utilization in key industries. Hence, their development is crucial to the nation's socio-economic development (Osuji, 2017).

Motilewa (2015) regards SMEs as social agents simply because the sector has a good fit within all economies all over the world; they are known to be the greatest employer of labour cutting across various strata of employment. They cut across boundaries and serve as a form of subsistence to families where government's presence is not felt. Jegede, Kehinde, and Akinlabi (2014) affirms that small business owners fancy personal savings and credits from cooperative societies to microfinance and commercial banks fund stating reasons of non-accessibility, exorbitant collaterals and high interest rates. SMEs are significance to any economy due to their ability to stimulate indigenous entrepreneurship, mobilize and use domestic savings; provide intermediate raw materials or semi-processed products to large scale enterprises and curtail rural-urban migration. Small and Medium Enterprises (SMEs) constitute the driving force of industrial growth and development due to their great potential in ensuring diversification and expansion of industrial production as well as the attainment of the basic objectives of development (Akpan and Nneji, 2015). Thus, SMEs reduces the regional imbalances and assure more equitable distribution of national income and wealth. SMEs are complementary to large industries as ancillary units and it contributes immensely to the socio-economic development of developing countries (Sayed and Trivedi, n.d.). The vision of micro financing is to create systemic change in financial systems worldwide, instead of the exclusive financial systems that have for decades benefitted and protected the wealthy, microfinance intends to serve the improvised majorities, help lift them out of poverty, finance SMEs thereby make them full participants in their country's social and economic development (Suberu, 2011). Micro financing emerged as a noble substitute for informal credit and an effective and powerful instrument for poverty reduction among people who are economically active, but financially constrained and vulnerable in various countries (CBN, 2012).

Micro Finance and SMEs Growth

Micro financing is a movement that envisions a world in which low-income households has permanent access to a range of high quality financial services to finance their income-producing activities, build assets, stabilize consumption and protect against minor investment risks (Lawanson, 2016). These services are not limited to credit, but include savings, insurance, and money transfers. Mazliana and Patmawati (2016) also found that micro financing is a catalyst for micro enterprising development and enhance access to finance without any collateral. Abdul, Shadiullah, and Sana-ur-Rehman (2015) also indicated that microfinance is helpful in enhancement of average sale revenue and net income. Moreover, Andrene (2012) describes that micro financing is typically a form of relationship lending in which underwriting primarily depends on soft (non-quantifiable) information about the borrower. Micro financing is suitable for micro enterprises that are informationally opaque and lack significant amounts of assets that can be pledged as collateral (Onyeneke and Iruo, 2015). Rolando (2016) posits that micro financing is an excellent way of assisting entrepreneurs. It provides the underprivileged with maintainable revenue through low interest loans. Additionally, Central Bank of Nigeria (2017) describes micro financing as the provision of financial services to the economically active poor and low-income households through selfless services such as credit, savings, micro-leasing, micro-insurance and payment transfer, to enable them to engage in income generating activities (Quansah, Amankwah, and Aikins, 2012).

Subsequently, Murray (2015) indicates that micro financing is remark as a mechanism for triggering or sustaining social and economic development by supporting entrepreneurial activities. Prasad, Sunitha, and Sunitha (2015) stress that micro financing enables the poor and excluded section of the people including the SMEs who do not have an access to formal banking to build assets, diversity livelihood options and increase income, and also reduce their vulnerability to economic stress. Kolawole (2013) affirms that micro financing helps to generate savings in the economy, attract foreign donor agencies, encourage entrepreneurship and catalyse development in the economy. Idowu (2010) expresses that micro financing has make positive contributions to SMEs growth and granting of loans towards promoting their market share, product innovation, achieving market excellence and the overall economic competitive advantage.

According to Osuji (2017a), microfinance institutions have been in the forefront of the drive towards economic growth and financial empowerment of the many less privilege citizens of our country which have passion for entrepreneurship business. Alli (2016), says that microfinance is an instrument to reduce or obliterate wide resource gaps among people including the active poor which could be traced to the rising inequality. Microfinance institutions empower SMEs through short-term finance and saving products, thus, helping to provide a start-up capital for productive business activities and increasing their contribution to the Gross Domestic Product (GDP) of the nation (Abdul, Shadiullah, and Sana-ur-Rehman, 2015; Small and Medium Scale Enterprises Development Agency, SMEDAN, 2012). Micro financing enables SMEs owners to protect, diversify and increase their incomes, as well as to accumulate assets, reducing their vulnerability to income and consumption shocks (Kibet, Achesa, and Omwono, 2015). Micro financing is described to be one of the prime strategies for achieving Millennium Development Goals (MDGs), particularly targets that relate to small and medium scale enterprises (SMEs) growth, poverty eradication, gender equality and the empowerment of the disadvantaged groups (Afolabi and Oni, 2012).

Theoretical Review/Framework

The study is anchored on the banks capital channel theory because of its adequacy in explaining the relation between the research variables.

Bank Capital Channel Theory

This model remarked that the lending behaviour of banks to SMEs is heavily dependent on capital adequacy requirement. Obamuyi (2007), showed that a change in interest rate can influence banks' lending to SMEs through bank's capital. This implies that increasing the value of interest rates raises the cost of banks' external funding but reduces banks' profits and capital. The tendency is for the banks to reduce their supply of loans if the capital constraint becomes binding. On the other hand, the banks could also become more willing to lend during situations when the interest rate is favourable. The sudden intervention of the Federal government of Nigeria and Central Bank in making provisions for the increase access to loanable loans with low and extended payable period is to cushion against the pandemic shock and prevent the high interest rates the commercial banks would have impose on the SMEs in spite of the downturn in global economic.

Methodology

The study adopted descriptive survey research design with a study population of thirteen thousand four hundred and fifty seven which comprises of the total registered SMEs in both Lagos and Ogun state according to SMEDAN 2013 survey. Primary and secondary data are utilized as the research instruments to solicit responses and data while Linkert five point rating scales measurement was used to test the degree of agreement and disagreement with the research questions. Taro Yamane's sampling size determination was used while stratified and proportionate sampling techniques was adopted to determine the exact sample size that structured questionnaire will be administered to in Lagos and Ogun state without bias and misappropriation. Statistical Package for Social Sciences (SPSS) version 21 and Ordinary Least Square Regression (OLS) statistical techniques are use to ascertain the relationship between the independent and dependent variables. The population of the study covers the entire small and medium enterprises business operators in both Lagos and Ogun States. According to SMEDAN (2013) the total number of small and medium enterprises (SMEs) in Ogun State is 1,794. While the total number of small and medium scale enterprises in Lagos State is 11,663.

Table 1.

States	Total SMEs	Percentage of SMEs	Sample size
Lagos	11,663	13 %	348
Ogun	1,794	87%	52
Total	13, 457	100%	400

Source: SMEDAN (2013)

Sample Size Determination

$$\text{Sample size (n)} = \frac{N}{1+N\,(e^2)}$$

1= Constant Significant error of 5% (0.05%) was applied
N=13, 457

$$\text{Sample size (n)} = \frac{N}{1+N\,(e^2)} = \frac{13,457}{1+13,457\,(0.05^2)}$$

$$n = \frac{13,457}{13,458 \times 0.0025}$$

$$n = \frac{13,457}{33.645} = 399.97 = 400$$

Total Sample size (n) for both Lagos and Ogun States SMEs = 400

Proportionate sample size determination for Ogun State is: 400 x 13% = 52 sample size. Hence, 52 questionnaires will be administered to selected SMEs operators and microfinance owners in Ijebu-Ode Local Government Area. Proportionate sample distribution for Lagos State is: 400 x 87% = 348 sample size. Hence, 348 questionnaires will be administered to selected SMEs operators and microfinance owners in Ikeja LGA. The choice of the sample areas is because they are regarded as the commercial hub for both states.

Model Formulation:

$$SMEGf = \alpha_0 + \beta_1 IR + \mu \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(i)$$

Method of Data Analysis / Analytical Techniques

The study utilized Statistical Package for Social Sciences (SPSS) 21.0 software and Ordinary Least Square Regression (OLS) statistical techniques are use to ascertain the relationship between the independent and dependent variables.

Analysis of Findings

Demographic Data

This section considers the peculiarity of each respondent in terms of age, sex, occupation; marital status. The frequency and percentage are given below.

Table 2: Demographic Data

Sex	**Frequency**	**Percentage (%)**
Male	191	47.8
Female	209	52.3
Total	**400**	**100.0**
Age		
18-25 Years	77	19.2
26-35 Years	151	37.8
36-45 Years	99	24.8
Above 46 Years	73	18.2
Total	**400**	**100.0**
Marital Status		
Single	157	39.3
Married	243	60.7
Total	**400**	**100.0**
Educational Background		
School Cert/WAEC/NECO	165	41.3
ND/NCE	72	18.0
BSC/HND	127	32.7
MSC/MA/MBA	12	3.0
Others	24	6.0
Total	**400**	**100.0**
Types Of Business Enterprise		
Agric/Agro Processing	99	24.8
Manufacturing	66	16.5
Construction	28	7.0
Trade/Services	207	51.7
Total	**400**	**100**
Ownership Structure	**Frequency**	**Percentage (%)**
Sole owner	208	52.0
Partnership	69	17.3
Family business	96	24.0
Others	27	6.7
Total	**400**	**100**
Sources of Finance		
Self-financing	156	39
Borrowing or credit	103	**25.8**
Banks loan	87	21.7
Gifts and grants	54	13.5
Total	**400**	**100**

Source: Field Survey (2020)

The above table 2 shows the descriptive statistics of the respondent demographic data. Among the respondents, 52.3% are female which implies that more than average of the respondents in this study are women and are more involved in small scale business in the study area. It was also discovered that most of the respondents are between the ages of 26-35 with a percentage of 37.8%, 19.2% falls between 18-25 years; while 18.2% are above 45 years. Furthermore, 39.3% of the respondents are single, 60.7% are married while in terms of the educational qualification of the respondents, 41.3% possess only secondary school certificate; 18% were privileged to obtain ND/NCE, 37.2% have BSc/HND degree while a small proportion 3% have second degree and a large number of the respondents (6%) had other educational qualifications. It is evident that the business owners sampled on the average are literate and has acquired basic education. It is also evident that most of the respondents are into trade and provision of services (51.7%); while only about 7% are into construction. Similarly, 52% are sole proprietors; 24% are family businesses; 17.3% are partnership firms, suggesting that most of the SMEs sampled are owned by sole individuals. It was also gathered that 39% of the SMEs sampled fund their business operations themselves; 25.7% take credit and borrow from individuals and cooperative societies; 21.7% also obtain funds from banks in form of loans while about 13.5% fund their business from money gathered from gifts and grants. This implies that most of the SMEs sampled are self-financing.

Table 3: Analysis of Questions Relating to Interest Rate

	INTEREST RATE	**SA**	**A**	**U**	**D**	**SD**
1	Interest rates charged by microfinance banks are relatively high and unsustainable for most firms	178(44.5%)	187(46.75%)	2(0.5%)	12(3%)	21(5.25%)
2	High interest rates discourage many firms from approaching microfinance banks for credit facilities	99(24.75%)	178(44.5%)	16(4%)	30(5.25%)	77(19.25%)
3	There are unrealistic credit processing costs and charges	167(41.75%)	183(45.75%)	17(4.35%)	21(5.25%)	29(7.25%)
4	High interest rate imposes extra investment risks	189(47.25%)	148(37%)	7(1.75%)	27(6.75%)	29(7.25%)
5	Short repayment period less than three years affect the firm growth	201(50.25%)	167(41.75%)	2(.5%)	10(2.5%)	20(5%)
6	Exorbitant interest rate causes declining firm growth	154(38.5%)	189(47.25%)	17(4.25%)	26(6.5%)	14(3.5%)

Source: Field Survey, 2020

The questions relating to interest rate was analyzed and presented in Table 3. It was revealed that 46.7% agreed that interest rates charged by microfinance banks are relatively high and unsustainable for most firms while 24.75% strongly agreed that high interest rates discourage many firms from approaching microfinance banks for credit facilities, 19.25% strongly disagreed to it.

Similarly, 41.7% strongly agree that there are unrealistic credit processing costs and charges; 37% agreed to it, while 6.75% disagreed. It was also noticed that 50.2% and 41.7% strongly agreed and agreed that short repayment period less than three years affect the firm growth respectively. It was also discovered that 38.5% strongly agreed that exorbitant interest rate causes declining firm growth while 6.5% disagreed; 3.5% strongly disagreed.

Table 4: Analysis of Questions Relating to SMEs Growth

	GROWTH	SA	A	U	D	SD
1.	There has been increasing sales revenue	199(49.7%)	147(36.7%)	5(1.25%)	15(3.7%)	34(8.5%)
2.	The staff strengths has been on the increase	160(40%)	104(26%)	3(0.7%)	56(14%)	77(19.2%)
3.	Cost of financing and production has reduced	188(47%)	191(47.7%)	5(1.25%)	7(1.7%)	9(2.2%)
4.	The firm has over time reduced its total asset	14(3.5%)	26(6%)	17(4.2%)	189(47.2%)	154(38.5%)
5.	Sales performance has improves	60(15%)	26(6%)	4(1%)	201(50.2%)	109(27.2%)
6.	The customer base percentage has been on the increase over time	99(24.7%)	178(44.5%)	16(4%)	77(19.2%)	30(7.5%)

It was further revealed that 36.75% agreed that the sales revenue of the firm has been on the increase while only 3.75% disagreed to it. Also, 40% strongly that there has been increase in staff over the years; while 14% respondents disagreed to this fact. This suggests that administration cost may be on the increase and that as the firm expand its operations, it became necessary to increase the number of staff in the organization.

Similarly, 47.75% and 47% agreed and strongly agreed that the cost of financing and production has reduced while 2.25% strongly disagreed to this fact. While 47.25% disagreed that the firm has over time reduced its total asset, 38.5% strongly disagreed to this. Also, 50.25% disagreed that Sales volume has been dwindle while 27.25% strongly disagreed. It was also observed that 24.75% of the respondents strongly agreed that the firm customer base has been on the increase over time, 44.5% agreed; 4% were undecided; 19.25% disagreed and 7.5% strongly disagreed. This implies the firms sampled have increased sales, staff, total assets and customer base and the cost of financing and production has reduced overtime

Hypothesis Testing

Table 5: Effect of Interest Rate on SMEs Growth

Dependent Variable: BP				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	0.459664	0.261104	13.25015	0.0000
IR	-0.127894	0.081423	-1.570731	0.0175
R^2	0.4322			
Adjusted R^2	0.1242			
F-statistic	2.467196			
Prob(F-statistic)	0.017471			

Source: SPSS & Regression analysis (2020)

The hypothesis was analysed to investigate the effect of interest rate on SMEs growth in Lagos and Ogun States, Nigeria using regression analysis as shown in the above table 5. The findings revealed that the constant of the model is positive and significant at 1%. On the other hand, the coefficient of interest rate (IR) revealed that a negative relationship exists between interest rate and SMEs growth, suggesting that an increase in interest rate will bring about a decrease in SMEs growth.

Furthermore, the r-squared shows that about 43.2% of the changes in SMEs growth were as result of interest rate charged by financial institutions. This suggests that charging high interest rate may bring about decrease in SMEs growth, which can be as a result of inability of SMEs to repay the principal and interest on the loan obtained. However, the F-statistics shows that the result is statistically significant at 5%. This means that in the study area, entrepreneur opportunity recognition is weak but significant in explaining the level of SMEs growth in Nigeria; hence, this study accepts the null hypothesis.

Discussion of Findings

From the foregoing, it is evident that interest rate has a significant negative effect on SMEs growth in Nigeria, suggesting that an increase in interest rate will bring about a decrease in SMEs growth in Nigeria. The finding of this study agrees with the findings of (Ferdousi, 2015; Sharma and Gounder, 2012) but conflicts with the finding of Niskanen and Niskanen (2007), which stated that positive relationship, exist between lending rate and growth. However, support the findings of this study as they recorded a negative relationship between lending rate and small business growth. However, Ofeimun, Omogbai and Izekor, (2018), Obadeyi (2015), Olowe, Moradeyo and Babalola (2013), findings are in consonance with this study.

Contributions to Knowledge and Recommendations

This study added to existing knowledge on the effect of micro-finance interest rate on small and medium enterprises (SMEs) growth in Nigeria. The study also utilized primary data as the main research instrument as compared to most of the past studies that adopted secondary data. The study establish that high interest rate serves as inhibitor to SMEs growth and recommends a moderate and enterprises friendly interest rate by micro finance banks in Nigeria to boost further SMEs growth. More so, there is need for access to finance without stringent collateral requirements particularly at this COVID-19 pandemic period.

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