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International Crude Oil Price Fall: Implication of Adopted CBN's Restrictive Monetary Policies on SMEs Performance in Nigeria.

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Abstract: *This study empirically investigated the implication of the adopted restrictive monetary policies on the SMEs. The CBN adopted the restrictive monetary policy as a palliative measure to cushion the unfavourable effect of the plummet of international crude oil price on the macro-economy without a thorough rethink of the effect on micro –economy specifically SMEs in Nigeria. The study is borne out of the curiosity to determine the aftermath of this panic measure adopted by CBN on Small and Medium Scale Enterprises which is the bedrock of any developing economy seeking industrialization like Nigeria. The research work employed Survey research design. The study revealed interestingly that high interest rate discourages investment. But, it further shows that irrespective of the level of interest rate, there are other factors that drive investors to invest more even when the level of interest rate is unfavourable which the study hypothesized as Market or Demand-Side Investment Driven. It is also revealed that CRR actually quarantined money supply which limits the access of the SMEs to credit because not less than 67% of this sector relies on commercial banks credit; Naira devaluation is really a cog in the wheel of SMEs investment and serves as drag to the SMEs performances. The research offered a set of policy prescriptions that is holistic and integrated approach which would make SMEs in Nigeria to be able compete with the foreign competitors, and the industrialization need of the economy can be achieved harmoniously with the nation's economic growth and socio-economic development*

Keywords: Interest Rate, Naira Devaluation, Cash Reserves Requirement Ratio, Small and Medium Scale Enterprises performance, Market/Demand-Side Investment Driven Hypothesis.

1. Introduction

In swift response to the continuous fall in international crude oil price, the Central Bank of Nigeria (CBN) announced an increase in the interest rate from 12% to 13%; devaluation of Naira in term of a Dollar from #155 to #199; increase in private Cash Reserve Requirement (CRR) from 15% to 20% (Olanrewaju & Chima, 2014), in order to mitigate the harsh effects of the shock on the foreign reserves and macro-economy without contemplation of conflicting impact it will have on micro-economy specifically Small and Medium Scale Enterprises (SMEs). SMEs constitute the chunk of the Nigeria economy. The need to promote the growth of SMEs and put in place enabling environments to enhance continuous virility through the mix of favourable monetary and fiscal policies should be the priority of the monetary authority now that the real sector of the economy is under-financed. The monetary policy as a matter of fact is a subtle and political palatable means to regulate credit condition in the economy towards the desirable path of growth, stability, external balance, employment generation which is made possible by the positive and enabling environment it paves to the micro units of the economy like SMEs and households. Small and Medium Scale Enterprises is the nerve and bedrock of Nigeria economy considering its job creation potential, forward linkages to large industries, sources of revenue to the governments etc. The facts that the sector relies so much on mixed technology, foreign source of raw materials and sourcing its finance from commercial banks are the specific pointers that the restrictive monetary policy measures pursued by CBN will have impact or impinge on the effective and efficient operation of this sector of the economy. The increase in interest rate has effect of reducing the gap between the marginal benefit of capital and marginal cost of capital; the increase in private Cash Reserve Requirement from 15% to 20% has effect of quarantined about #500B from #10Trillion away from commercial banks hence little would be available for lending purpose to the real sector that is seriously in need of fund in one hand. And, the devaluation of naira in term of

Dollar while the SMEs demands for raw material abroad is inelastic because substitutes of their material inputs are limited in availability in Nigeria at the other hand are the strong evidences that the CBN restrictive monetary policies might turn to be strangulating and counterproductive on the SMEs performance in Nigeria.
The statement of research problems are not farfetched; the fiscal efforts of the central authority do not promote diversification of the economy base, it only engendered the economy to be mono-culture; the foreign reserves of the nation is inadequate to finance the foreign exchange needs of the economy and cushion undesirable effects of the shock; the overreliance of the real sector on the foreign materials as input to their production process; sheer failure of the government to provide favourable productive environment e.g. incessant power failure, lack of potable water, bad road network ; there is no palliative measure put in place by the governments to cushion the undesirable conflicting effects of macro-economic policy on the micro economic unit like SMEs in Nigeria etc. Against this backdrop, this research work has its main objective to investigate the impact of this tripartite tool (High Interest Rate, Naira Devaluation and High Cash Reserve Requirement) on the competitiveness and performance of SMEs in Nigeria. And, specifically without mincing words to determine the effect of the increase in CRR and interest rate on entrepreneurs' accessibility to fund and investment performance; the impact of the naira devaluation on the cost of sourcing SMEs' material inputs from abroad; to determine to what extent the government provides cushioning measures to ameliorate the counterproductive effects the adopted policies might have on SMEs operations, profitability and survival. Ultimately, to provide policy prescriptions as the way forward to the SMEs and Governments in Nigeria.

Consideration of the emergence of the shock that compelled the government to take proactive measures in pursuance of macro-economic objectives without anticipating the conflicting and negative third party effects on micro economic unit specifically SMEs which their economic fortunes and destinies are attached to these policy actions; in conjunction with the aforementioned objectives of the research justified the serious investigative attention being paid by the researchers to this study. This research work is further justified by the fact that to the researchers' best of knowledge, fewer studies that researched on the implication of monetary policy on SMEs performance in Nigeria suffered from one methodological problem to the others. Many of them do not include the other important variables like Cash Reserve Requirement Ratio, Naira devaluation. Most of these studies focus on interest rate while few focus on devaluation in separate studies. In addition, some studies base their sample of studies to Lagos and used the result thereof to generalize for Nigeria (Chigumira and Masiyandima 2003; Obokoh and Ehiobuche, 2011; Adolph J. T., 2011; Okwo Ifeoma Mary et al., 2012; Ikelikume, 2015 etc). Consequently, this study is unique because it developed a framework and integrates these three monetary tools; Interest Rate, Cash Reserves Requirement ratio and Naira Devaluation into a model. More so, the study spread the sample of study to six 6 Geo-Political zones in Nigeria in order to make the study more representative of Nigeria condition and ensure its robustness. The rest of the paper is organized as follows: section two focuses on literature review, section three deals with the methodology and research model, section four presents and analyses the data and section five discusses the findings, conclusion and proffer policy directions.

2. Literature Review

2.1. Conceptual Literature

Small and Medium Scale Enterprises (SMEs) according to CBN in its #200B credit guarantee scheme defined it as an enterprise that has asset base (excluding land) of between #5m and #500m and labour force of between 11 and 300 (Resourcedat, 2014). CBN (2005) refers SMEs in broader scope to include micro/cottage industry with a labour size of not more than 10 workers, or total cost of not more than #1,500,000, including working capital but excluding cost of land. Small-Scale Industry is an industry with a labour size of between 11 and 100 workers or a total cost of not more than #50 million including working capital but excluding cost of land. Small scale industry is any industry is any industry not exceeding #750,000 including working capital but excluding cost of land. It is also defined by Center for Industrial Research and Development of Obafemi Awolowo University as those industries which total assets in plant, equipment and working capital do not exceed #250,000 with not more than 50 employees (SME Union Bank, 3013). Nigeria Industrial Development Bank sees Small scale as enterprises with project cost of (Investment and working capital) not exceeding #750,000 WHILE THE MEDIUM SCALE as the investment cost within the range of #750,000 and #3Million. National Economic Reconstruction Fund (NERFUND) conceptualizes small scale enterprises as those with fixed assets other than land but inclusive of the cost of new investment not exceeding #10M. The review of the concept reveals that the small and medium scale operation needs funding in order to achieve the objectives of promoting industrialization in the long run. The capital needs of this sector need to be meticulously considered and guided in any monetary policy that any responsible and ambitious monetary authority wants to put in place.
Monetary policy is the calculated measures devised to regulate the supply of money and credit circumstances in an economy towards the achievement of the macro-economic goals of full employment, price stability, growth, external balance, equitable income distribution etc. G. K. Shaw as cited by Jhingan (2004) described monetary policy as any conscious action undertaken by the monetary authority (CBN) to change the quantity, availability or cost of money. According to Jhingan (2004), monetary policy refers to the credit control measures adopted by central bank of a country. ***The researchers conceptualize monetary policy as the calculated policies that deal with the direction of the economic path by the direction of money and credit availability towards the direction of predetermined***

economic objectives. In a nutshell, the ability of the small and medium scale enterprises to accomplish the objectives of providing and satisfying the needs of the people, generating employment, operating profitably for survival, developing on the adopted mixed technology, and promotion of industrialization of the nation for self reliance in the long run is strictly attached to the favourable monetary measure put in place by the monetary authority to provide enabling environment for them.

The principal monetary instruments that are of concern with this study are; Interest rate (Bank rate), Private cash reserve requirement, exchange rate.

Interest Rate is considered to be one of the determinants of investment because it is the cost of capital. Under a rational investment behavior enterprises are expected to invest up to the point where the marginal rate of return on investment is equal to the market interest rate or the cost of capital (Fashola, 2004). Umoh (1995) refers interest rate as the rate that commercial banks charge their customers which is determined by the prime rate. According to Umoh, CBN undertakes the task of regulating the movement of interest rate because of market imperfection. The cost of borrowing investment money is referred as the rate of interest. In Keynesian sense, rate of interest is seen as the reward of not hoarding but the reward for parting with liquidity for the specified period (Jhingan, 2006). This is conceived from the angle of the receiver of the interest rate who lends the resource out. Meanwhile, it is the cost to the payer of interest rate with the mentality of investing the borrowed fund in order to make profit from which the entrepreneurs will recoup the paid interest rate and other cost of running the investment.

*Cash Reserve Requirement: T*he 1958 promulgation act that drove the CBN alive conferred the power to the institution to regulate the degree of cash and liquidity that the commercial banks must keep aside in order to influence their money creation ability (lending) through the excess reserve. Adegbite (2007) opines that reserved requirement is usually expressed as the percentage of customers deposit and it set the maximum amount of credit that can be created by the banking system. An increase in the ratio as carried out by CBN recently compelled the commercial banks to liquidate some part of their investment in order to acquire the assets that qualify as reserves. In order words, it indicates the policy direction that certain prescribed percentage of the money would be quarantined in the economy.

Foreign Exchange Control/ Naira Devaluation: Ademola (1999) refers it to official reduction in the value of a country's currency relative to foreign currency. The CBN often through its monetary policy committee legislates that more of naira would be needed to obtain the foreign currency (US Dollar). It is indeed the downward valuation of naira in term of foreign currency. This monetary exercise by the monetary authority (CBN) is refers to the fixing exchange rate system. The policy thrust of it is to stabilize the international price and seek favourable external balance.

2.2. Theoretical Literature

Devaluation

Adapting the view of J.U Umoh (1995), Naira devaluation efficacy depends on the following:

Supply Size of the country's export: As the Nigeria is devaluing its Naira in the face of its relatively small export size in relation to the world export would not bring about the success story. Nigeria is not a major world exporter, whereby devaluing its naira would influence the world price and consequently boost her export trade favourably. Moreover, Nigeria SMEs have not developed to the level of competing with the international investors hence their supply of output is negligible relative to global supply.

Export Supply Elasticity: the elasticity of export supply must not be low, so that it will not be difficult to satisfy foreign demand. Anything short of this will bring about inflation. Meanwhile, apart from the non-renewable crude oil that Nigeria relies on which characterized her economy as mono-product, the neglected agricultural sector that is SMEs friendly and would have been the mainstay of the economy is largely inelastic in supply because of the lag involves in its production.

Import Demand Elasticity: if the demand for import is inelastic, the increase in the import price through devaluation will not substantially reduce the volume of import. The implication of this would be harsh on our existing foreign reserves and further make the Naira vulnerable.

Export Demand Elasticity: if the demand for Nigeria export is elastic, reduction in price through devaluation would boost export and more foreign exchange would be earned through increase in quantity of export demand. Consequently, accumulation of foreign reserve would be engendered which will be available to cushion the shock from external forces as witness during the plunge of crude-oil price recently. The fact of the issue is that the demand for Nigeria export is Inelastic, the reason for this is not unconnected to the nature of the Nigeria output which is chiefly primary product. Therefore, Dutch diseases syndrome also applies to Nigeria.

Interest Rate

Supply and Demand of Capital Theory of Interest Rate (Classical Approach)

The demand for capital is for productive purpose. The entrepreneurs demand for capital for investment purpose. The efficiency of capital is subject to law of variable proportion i.e. additional unit of capital will not be productive as earlier units employed. At the point where the marginal productivity of capital is equal to the interest rate (cost of capital) the entrepreneur will not invest more. Hence, demand for capital is inversely related to interest rate. The supply of capital depends upon the rate of savings. Savings involves a sacrifice when they forgo present consumption in order to earn interest. Consequently savings is a direct function of interest rate. The interaction between these two forces brings about equilibrium between investment and savings hence natural rate of interest is determined.

Loanable Funds Theory of Interest Rate (Neo-classical)
The neoclassical put forward that the determination of interest rate is base on loanable funds. This theory states that the rate of interest is the price of credit which is determine by the demand and supply of loanable funds. The businessmen borrow for the purchase of capital goods and for starting investment projects. The supply of loanable funds comes from the savings, dishoarding and bank credit. Considering these facts, the tendency to borrow by the businessmen or entrepreneurs for investment purpose is higher at a lower rate of interest than at higher rate.
Liquidity Preference Theory of Interest Rate (Keynesian Approach)
This is referred to as the monetary theory of interest rate. The approach put forward that the rate of interest is determined by the demand for money (i.e. this is motive to hold cash; transaction, precautionary and speculative) and the supply of money. The supply of money is the total volume of money in the country determined by the monetary authority. While, demand for money for speculative purpose is applicable to the study which is for investment or the purpose of procuring profit. The investment and the rate of interest are inversely related implying that at higher interest rate demanding money for investment purpose would not be productive like at lower interest rate. In the words of Jhingan (2006) the higher the rate of interest, the lower the investment demand of money, the lower the rate of interest, the higher the investment demand of money. Consequently, high interest rate will deter the investment by SMEs.

Empirical Literature
To ascertain the positions of authors on the related study it is mandatory to carry out empirical review in order to identify the gap existing in the conducted researches on the issue related to the study at hand.

The fact that small and medium scale enterprises (SMEs) contribute tremendously to the nation's economic development has been established by various studies, in fact the favourable monetary and credit condition (fund availability) is adjudged crucial for this sector to be competitive and be capable of driving any economy to the desirable status (Emmanuel and daniya, 2012; Vivian C. O. et al., 2011; Razak Bamidele 2012; Pramuka et al. in Indonesia, 2013; Chisala in Zambia 2008; Almas in Korea, 2013; Dalisto and Peter in Ghana & Malawi, 2000; Sebastian et al. 2014; Tulus Tambunan in Indonesia, 2011).
Chigumira and Masiyandima (2003) worked on 'Did Financial Sector Reform Result in Increased Savings and Lending for the SMEs and poor?' with the main purpose of assessing the effect of financial reforms in Zimbabwe on credit availability to SMEs. The study uncovered that high lending rate restricted access to credit by the SMEs.
Adolph J. T. (2011) researched on Modeling Bank Management, Rural Lending and Small Business Finance in Nigeria. The study used regression analysis and revealed that the bank management variables like Cash reserve required ratio varied inversely with the ratio of loans to SMEs.
Obokoh and Ehiobuche (2011) carried out study on the Globalization of Finance: Analysis of the Impact of Exchange Rate Deregulation on Small and Medium Sized Enterprises Development in Nigeria covering the period of 1980 -2009 with the objective of exploring the impact of exchange rate deregulation on SMEs. The study used the Return on Investment (ROI) model to analyze both the primary and secondary data. The study concluded among others that SMEs in Nigeria lack competitive ability as a result of weak naira which greatly inhibits their ability to acquire modern technical equipments for efficient production.
Okwo Ifeoma Mary et al. (2012) investigated the Causal Effect of Bank Management Ratios on Rural Lending and Small and Medium Scale Enterprises in Nigeria. The study used granger causality and Ordinary Least Square (OLS) as the method of its analysis. The study reveals that excess of liquidity in banking system between the period 1983 and 2010 did not improve the flow of fund to the SMEs in Nigeria.
Selim Suleyman (2012) empirically investigated the Effects of the Monetary Policies on Bank Credit for SMEs' in the Manufacturing Sector: Evidence from Turkey, with the purpose of analyzing and detecting correlations between credit growth and bank credit for SMEs in manufacturing sector. The paper concludes that increase in credit volume of large enterprises does not have any effect on the credit volume of SMEs in turkey.
Daniel M. K. et al (2013) investigated Constraints Facing New and Existing Small and Medium-Scale Enterprises (SMEs) in Greater Accra Region of GHANA. The study adopted research design and descriptive style. It found out that the high cost of operation of the SMEs constitutes a major barrier to them and thereby recommended that the government should regulate the cost of operation of SMEs.
Ikelikume (2015) examined Devaluation of Naira: Implication for Business in Nigeria. The study applied descriptive statistics to explore the effects of the devaluation on the business and SMEs in Nigeria. the study revealed among others that cost of doing business now vary high for SMEs and corporate firms with firm seriously exposed to dollar denominated debt which led to reduction in their production.

3. Methodology

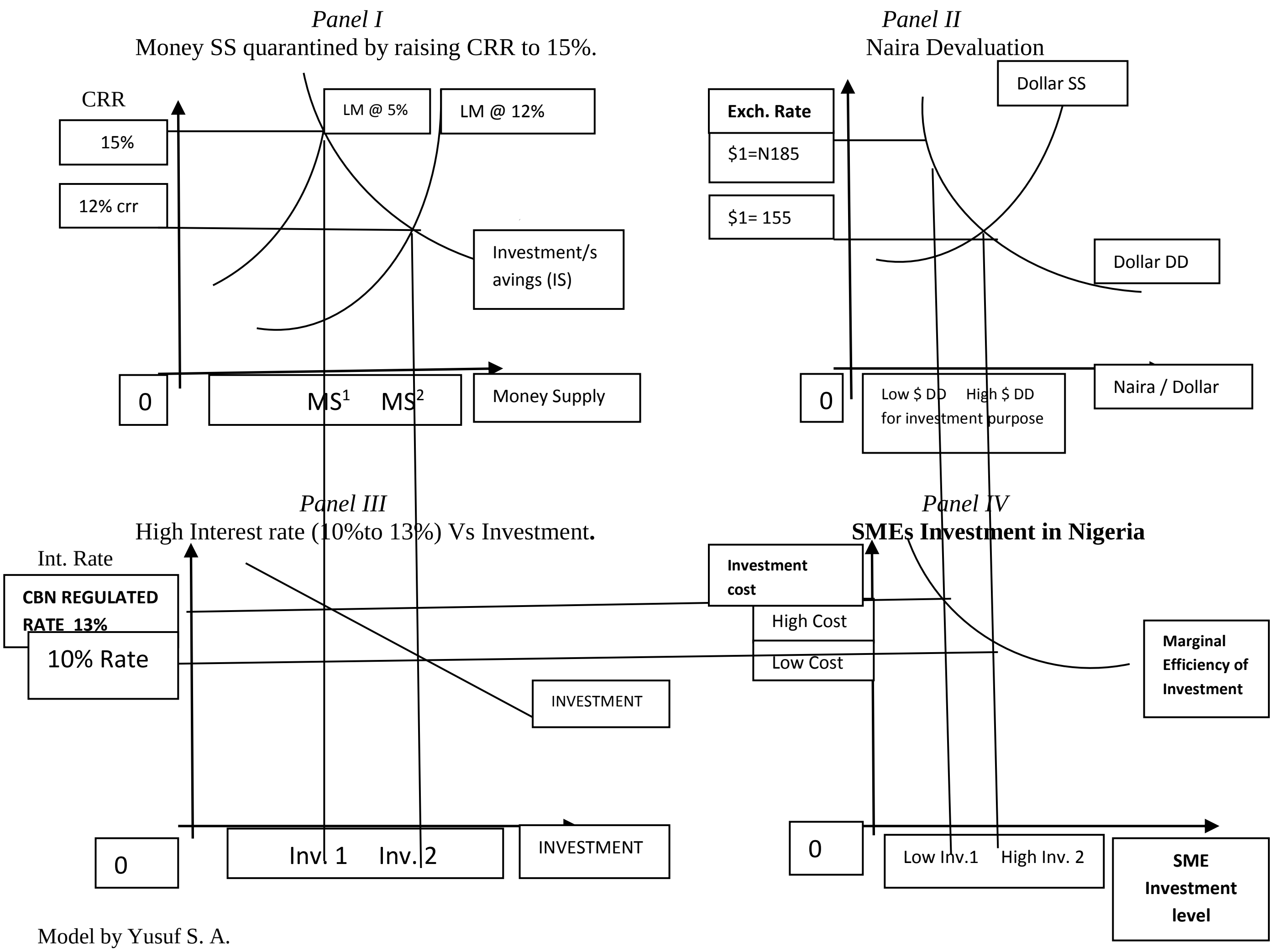
The study adopted Survey research design. The population of the research comprises the Small and Medium Scale Enterprises (SMEs) ranges from the capital limit of N5million (Micro SMEs) to the medium investment with about N20 million and their work force is between 10 and 100 employees (Mini SMEs). To ensure that the population is adequately represented both Multi-stage and Stratified sampling technique are used. The 5 points Likert scale questionnaire is well structured and administered in 6 Geo-political zones of Nigeria to ensure robustness of the analysis. The 5 point Likert scale was adopted to avoid the evasive responses from the respondents having discovered that many of them were not willing to give specific answer regarding issues related to money things during the pilot survey conducted in Abeokuta in March 2014. 50 questionnaires were distributed considering the strata of the SMEs in each zone making 300 questionnaires with slight interpersonal interview and adequate monitoring of the instruments by the researchers. The study used these

3.1. Theoretical Framework / Model

sampling techniques due to the complex nature and geographical distribution of the population. More so, there is absence of sampling framework on the subject of study. The research also employs Chi-Square statistic to test the hypotheses. The reason for using this technique is not unconnected to the fact that Chi- square test is nonparametric test that is appropriate to analyse enumerative ranked ordinal data. It is as powerful as parametric test and it is generally more applicable (Adedayo, 2006).

The study developed the appropriate model to clearly explicate the transformation mechanism and impact of these policies on the performance of SMEs in Nigeria.

Fig 1. Restrictive Monetary Policies impact on SMEs Model



Model by Yusuf S. A.

Assumptions of the Model

- The source of credit/ finance to SMEs in Nigeria is commercial banks that are directly affected by the CBN's monetary regulation.
- No palliative measures put in place by government to cushion the unfavourable effects of credit mopped up by CBN on SMEs in Nigeria.
- The commercial banks excess reserve is the limit of credit or loan extension in the economy.
- The micro economic units i.e SMEs in Nigeria still rely majorly on the foreign sources of their materials input in the production or service process.
- Interest rate is dictated and ruled upon by monetary authority (CBN).

Panel I: Money supply (credit availability) condition through the regulation of Cash Reserve Requirement and Small and Commercial banks is limited consequently limit the credit accessibility of SMEs in the country.
Panel II: The increase of interest rate by the CBN from 10% to 13% and the fact that the certain percentage of the credit has been frozen by the increase in CRR have the effect of squeezing the credit available for investment in one hand. And, the high interest rate fixed above the existing prevailing rate implies high cost of financing (investment) at the other hand. These monetary actions are definitely overheating the economy with the resultant harsh effect on performance of SMEs which brought about low investment (Inv 1) as compared to the (Inv 2).
Panel III: Devaluation of Naira through the CBN regulation by reducing the Naira value in term of Naira ($1= N155 to $1=199) actually affected the demand of dollar for sourcing the production inputs and materials from abroad. Meanwhile, the reduction in the level of demand is relatively low (inelastic import demand) because there is no tangible local source of these inputs. Consequently, foreign demand with high cost of dollar brings about reduction in the investment size and high cost of production for those SMEs that strive to meet up.
Panel IV: The effect of this unholy trinity (High Interest Rate, High CRR and Naira Devaluation) on SMEs in Nigeria is clearly elucidated by this panel. They brought about limited capacity to invest and high cost of investment by SMEs. The marginal efficiency of the SMEs' investment falls at higher interest rate and cost of operation.

Research Questions
The research seeks to provide answers to the following questions.
Does High interest rate reduce / discourage the SMEs investment ?
Does high Cash Reserved Requirement Ratio significantly limit the SMEs fund accessibility?
Medium Scale Enterprises investment is inversely related. When the CRR is high the credit available to be created by Does high cost of dollars in Naira term (Naira devaluation) reduce volume of investment and cost of financing by SMEs?
Ultimately, what is the relationship between restrictive monetary policy and SMEs performance in Nigeria?

Research hypotheses
The following conjectural statements are put forward to guide the research in its bid to obtain the reliable results from the analysis.
H_O: Increase in cost of credit doesn't significantly reduce the SMEs investment.
Ho: Reduction in excess reserve doesn't significantly reduce the SMEs access to fund.
Ho: High cost of dollars (Naira devaluation) does not significantly rendered investment by SMEs unviable.
Ho: Restrictive monetary policies adopted by CBN don't significantly depress SMEs investment.

4. Empirical Evidence

4.1. Data Presentation and Analysis

350 questionnaires were distributed to both the SMEs and bank officers across 6 Geo-political zones of Nigeria. All 50 questionnaires administered to the bank officials were validly retrieved. While 286 questionnaires were validly retrieved out of the 300 questionnaires distributed to SMEs which constitutes 95.33% of the total SMEs respondents.
The analysis is based on the validly retrieved responses which are 286 SMEs operators, the questionnaires further presented the items that were analyzed exclusively for the SMEs that deal with procurement of material input and stock from abroad. The instruments probed many relevant issues, the organizational information and the relevant items to be tested to achieve the objectives of the study are only given attention below:

Table 1. Nature of the Organization

Variables	Manufacturing	Construction	Agriculture	Service Organization	Banks	Total
Respondents	158	48	61	24	24	310
Percentage	50.97	13.87	19.68	7.74	7.74	100
Cummulative %	50.97	64.84	84.52	92.26	100	
Interpretation: 158 respondents are manufacturer (50.97%), while 48 respondents (13.87%) are into construction business. 61 respondents of the SMEs (19.68%) are into Trading business and 24 of the SMEs (7.74%), and 24 banks which constitute 7.74% of the sample .						

Source: survey (Feb, March 2015)

Table 2. Size of Working Capital of the Organization

	Micro SMEs	Mini SMEs		Medium SMES	
Variables	N1m– N5million	N5.1m – N25million	N25.1m – N50m	N 50.1 million above	Total
Respondents	62	112	89	23	286
Percentage	21.7	39.2	31.1	8	100
Cumulative %	21.7	60.9	92	100	
Interpretation: Consideration of the composition of SMEs in term of the capital size made the study to classify it into the following; Micro, Mini and Medium. 62 respondents (21.7%) fall under Micro, 201 respondents (70%) fall under Mini SMEs and 23 respondents (8%) are medium SMEs.					

Table 3. Sources of Fund

Variables	Self financing	Commercial Banks	Credit and Thrift Association	NBFI	Total
Respondents	31	192	39	24	286
Percentage	10.84	67.17	13.64	8.39	100
Cumulative %	10.84	77.97	91.61	100	

Interpretation: 31 respondents (10.84%) are self financing SMEs, 192 of the investors (67.13%) rely on commercial banks loan, 39 SMEs operators (13.64) source their finance from savings and loan association and 24 of them 8.39% secures fund from Non bank Financial Institution.

Table 4: Sources Of Material Input/ Stock

Variables	Local Source	Foreign Source	Local + Foreign Sources	Total
Respondents	65	85	136	286
Percentage	22.72	29.72	47.56	100
Cumulative %	22.72	52.44	100	

Interpretation: 65 SMEs operators (22.72) only rely on local input. 85 of them (29.72%) depends chiefly on the foreign source of input/stock while 136 SMEs operators (47.56%) depend on both local and foreign input. Categorically, SMEs operators (77.28%) still in one way and the other source their material inputs from abroad. Meanwhile, only 65 operators (22.72%) depend only on local input.

Table 5: Duration of Operation

Variable	0 – 2 years	2 – 5 years	5 – 20 years	20 years above	Total
Respondents	52	90	118	26	286
Percentage	18.2	31.5	41.3	9	100
Cumulative%	18.2	49.7	91	100	

Interpretation: 52 respondents (18.2%) within the period of 2 years, 90 of them have been in operation between 2 and 5 years. 118 of them have been operating between 5 and 20 years while 9% of them have been operating for over 20 years.

Source: survey (Feb, March 2015)

The following items are given attention in the administered questionnaires in order to facilitate the hypothesis testing that will guide the study toward the achievement of the research objectives.

Table 6: High Interest Rate Increases Cost of Production

Variable (Scale)	High Extent (5)	Some Extent (4)	Indifference (3)	Little Extent (4)	Low extent (5)	Total
Responses	133	71	15	29	38	286
Percentage	46.5	24.8	5.2	10.1	13.3	100

Interpretation: 113 firms agree to high extent that high interest rate increases production cost, while, 71 respondents (24.8%) agree to some extent, 15 of them (5.2%) are indifferent, 29of the SME operators (10.1%) agree to little extent while 38 of the operators (13.3%) agree to low extent.

Table 7: High Interest Rate Reduces your Firm Profitability

Variable (Scale)	High Extent (5)	Some Extent (4)	Indifference (3)	Little Extent (4)	Low extent (5)	Total
Responses	82	68	35	61	40	286
Percentage	28.7	23.8	12.2	21.3	13.98	100

Interpretation: 82 operators which constitute 28.7% agree to high extent that high interest reduces their firms profitability via increase in capital cost. 64 respondents (23.8%) agree to some extent that high interest rate reduces their profit. 35 respondents (12.2%) are uncertain while 61 respondents (21.3%) agree to little extent and 40 of them (13.98%) agree to low extent.

Table 8: High Interest rate reduce/discourage SMEs Investment

Variable (Scale)	High Extent (5)	Some Extent (4)	Indifference (3)	Little Extent (4)	Low Extent (5)	Total
Responses	52	62	64	48	60	286
Percentage	18.18	21.68	22.38	16.78	20.98	100

Interpretation: 52 SMEs operators (18.18%) agree to high extent that high interest rate discourage SMEs investment, 62 of the (21.68%) agree to some extent and 64 of the operators (22.38%) agree are uncertain. 48 SMEs operators (16.78%) agree to a little extent and 60 of them (20.98%) agree to a low extent that high interest rate can discourage investment by SMEs.

This result put the researcher on inquiry because the above result doesn't shows clear-cut opinion that high interest rate discourage investment. This is indicated by the fact that the responses to these variables almost balance out. Consequently, the study included the following item as germane to the achievement of the objective of this study at hand.

Table 9: Investment is Encouraged by other Factors despite High Interest Rate

Variable (Scale)	High Extent (5)	Some Extent (4)	Indifference (3)	Little Extent (4)	Low Extent (5)	Total
Responses	94	105	36	22	29	286
Percentage	32.87	36.71	12.59	7.69	10.14	100

Interpretation: 94 respondents agree to high extent that other factors irrespective of level of interest rate encourage and promote the quest to invest. while, 105 operators (36.71%) agree to some extent that there are other factors that encourage them to invest in despite high interest rate. 36 respondents (12.59%) are uncertain and 53 of the respondents (17.83%) agree to little and low extent.

Source: survey (Feb, March 2015)

The following items in table 11 and 12 applied to the SMEs operators or respondents that procure their material input or stock from foreign source. Out of 190 that indicated that they procure their material input/stock from abroad 181 responses were found to be valid and 9 were invalid. The subsequent analysis is based on these valid responses.

Table 10: High Cost of Dollar (Naira Devaluation) increases cost of input/stock acquisition hence reduce profitability

Variable (Scale)	High Extent (5)	Some Extent (4)	Indifference (3)	Little Extent (4)	Low Extent (5)	Total
Responses	64	53	18	20	26	181
Percentage	35.36	29.28	9.95	11.05	14.36	100

Interpretation: 64 of the SMEs operators (35.36%) that deal with foreign inputs agree to high extent that high cost of dollar reduce profitability, 53 of them (29.28%) agree to some extent that high Dollar cost reduce profitability while 18 operators that constitute 9.95% are uncertain. 20 of them (11.05%) agree to a little extent and 26 operators agree to low extent that naira devaluation reduce SMEs profitability.

Table 11: Naira Devaluation discourages SMEs investment in Nigeria

Variable (Scale)	High Extent (5)	Some Extent (4)	Indifference (3)	Little Extent (4)	Low Extent (5)	Total
Responses	81	42	18	19	21	181
Percentage	44.75	23.20	9.95	10.50	11.60	100

Interpretation: 123 of the respondents (67.95%) agree beyond reasonable doubt that naira devaluation discourage SMEs investment, while 28 of them 9.95% are uncertain while 40 respondents which constitutes 22.10% agree to little and low extent.

Source: survey (Feb, March 2015)

The following item in table 13 is raised to test the hypothesis of high CRR effects on SMEs' access to credit. The instrument indicates that almost 70% of the SME operators rely on Commercial banks loan, the facility that is highly susceptible to the CBN monetary policy of Cash Reserve Requirement Ratio.

Table 12: High Cash Reserve Require Ratio limits the credit expansion ability of commercial banks

Variable (Scale)	High Extent (5)	Some Extent (4)	Indifference (3)	Little Extent (4)	Low Extent (1)	Total
Responses	18	12	13	7	5	50
Percentage	36	24	26	14	10	100

Interpretation: 18 bank officers (36%) agree to a high extent that high CRR limits the credit expansion ability of the commercial banks, 12 of the officers (24%) agree to some extent while 13 (26%) of the officers remain skeptical and 7 of these officers agree to little extent, 5 of them (1o%) agree to low extent.

Table 13: High CRR ratio reduces SME operators access to fund in commercial banks

Variable (Scale)	High Extent (5)	Some Extent (4)	Indifferent (3)	Little Extent (2)	Low Extent (1)	Total
Responses	20	9	8	7	6	50
Percentage	40	18	16	14	12	100

Interpretation: 20 bank officers (40%) agree to a high degree that high CRR ratio will squeeze credit that will be available for SMEs operation, while 9 of the officers 18% agree to some extent, 8 of them are uncertain, and 13 of them agree to low and little extent.

Source: survey (Feb, March 2015)

In view of the foregoing results and interpretation, this study sees it mandatory to use the above items in table 8, 11 and 13 to test the hypotheses of; H_0 Increase in cost of credit doesn't significantly reduce the SMEs investment;

Ho: Reduction in excess reserve doesn't significantly reduce the SMEs access to fund;

Ho: High cost of dollar doesn't significantly discourage investment by SMEs, respectively with one sample T-test. The general hypothesis specified as H_0: with the non-parametric Chi-square test.

Hypothesis I H_0: High Interest rates does not reduce/discourage SMEs Investment

Table 14.1 One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
high interest rate doesn't reduce investment	5	57.2000	6.87023	3.07246

Table 14.2 One-Sample Test

high interest rate doesn't reduce investment	Test Value = 0					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Int.	
					Lower	Upper
	18.617	4	.000	57.20000	48.6695	65.7305

SPSS Results May 15, 2015

The above T- test result shows that the calculated value is 18.617 while the table value is 3.747, Degree of Freedom 4 @ 1% level of significance. The study rejects the null hypothesis that states that High Interest rates does not reduce/discourage SMEs Investment. And, accept the Alternate hypothesis which states that High Interest rates significantly reduce/discourage SMEs Investment.

Hypothesis II H_0: High CRR does not reduce SMEs access to credit.

Table 15.1. One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
high CRR doesnt reduce SMEs access to credit	5	10.0000	5.70088	2.54951

Table 15.2. One-Sample Test

high CRR doesnt reduce SMEs access to credit						
	t	Df	Sig. (2-tailed)	Mean Diff.	95% Confidence Interval	
						Upper
	3.922	4	.017	10.00000		17.0786

SPSS Results May 15, 2015

The above T- test result shows that the calculated value is 3.922 while the table value is 3.747, DF 4 @ 1% level of significance. The study rejects the null hypothesis that states that High CRR does not significantly reduce SMEs access to credit. And, accept the Alternate hypothesis which states that High CRR significantly reduces SMEs access to credit.

Hypothesis III: High cost of dollar doesn't significantly rendered investment by SMEs unviable.

Table 16.1. One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Naira Devaluation doesn't reduce SMEs investment	5	36.2000	26.92025	12.03910

Table 16.2 One-Sample Test

Naira Devaluation doesn't reduce SMEs investment						
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval	
					wer	Upper
	3.007	4	.040	36.20000	2.7741	69.6259

SPSS Result May 9, 2015.

The above T- test result shows that the calculated value is 3.007 while the table value is 2.132, DF 4 @ 5% level of significance. The study rejects the null hypothesis that states that Naira Devaluation doesn't significantly discourage SMEs investment). And, accept the Alternate hypothesis that Naira devaluation significantly discourages investment.

In view of the above results of specific hypotheses test, the study considered it necessary to test the following general hypothesis.

H_0: Restrictive Indirect Monetary Policies adopted by CBN doesn't depress SMEs investment in Nigeria.

Table 17: Chi-square Test Statistics

Chi-Square	47.904[a]
Df	8
Asymp. Sig.	0.023

SPSS Result 15 May, 2015.

Base on the above chi-square statistics, the calculated Chi-square value is 47.904 while the table value is 20.09 Degree of Freedom 8, @ 1 % significant level. Consequently, the study rejects the null hypothesis which states that Restrictive Indirect Monetary Policies adopted by CBN doesn't depress SMEs investment in Nigeria. The study accepts the alternate hypothesis which posits that restrictive monetary policies adopted by CBN depress SMEs investment in Nigeria.

Findings, Conclusion and Recommendation

Summary of Findings

The study reveals interestingly that high interest rate actually increase cost of production through high cost of Naira and discourage investment, but, the study further shows that irrespective of the level of interest rate, there are other factors that drive investors to invest more even when the level of interest rate is unfavourable. In the opinion of the researchers, this is referred to as ***Market or Demand-Side Investment Driven Hypothesis***. In succinct words this is when the unfavourable supply sides like high cost of production, unfavourable supply condition are weighed down by other factors like market size, favourable future expectation in investment, future profit, ingenuity and enterprising disposition of the investors. It is further discovered that CRR actually quarantined the credit in the economy through the CBN policy of contraction of money supply and this limit the access of the SMEs to credit in Nigeria because not less than 67% of this sector relies on commercial banks credit. The research further finds out that Naira devaluation is really a cog in the wheel of SMEs investment and serves as drag to the party effects such policy might inflict on the other segment of the economy.

This study has strong belief that the suitable recommendations for the government and its monetary agency like CBN should be 'holistic and integrated approach' in order to mitigate the harsh effects of the global pressure (fall in international crude oil price) that the nation just experienced in case there is re-occurrence of such. The approach includes the following policy prescriptions:

The diversification of revenue base of the economy in order to relieve the Nigeria economy from being monoculture economy, the nation that depends on the generation of foreign exchange by relying chiefly on the export of primary product SMEs performances which go a long in inhibiting its promotional roles in the industrialization process that the nation is seeking of.

Conclusion

The research brings the study to the conclusion that CBN, the monetary agent of Federal Government of Nigeria in her effort to pursue and achieve certain macroeconomic objectives neglects the implication of the adopted restrictive indirect monetary policies on micro economy specifically SMEs which is the bedrock of any promising economy that sees industrialization as priority. The adopted restrictive (strangulation) policies have negative implication on SMEs investment. The tuning of this unholy monetary trinity (increase in CRRr, Interest rate and Naira devaluation) without categorically providing tangible palliative measures to cushion this segment of the economy is cataclysmic on SMEs performance in Nigeria. The coincidence of this period to the time when there was reckless political/campaign spending somewhat increased the money supply which mitigate the overheating effect of this policy on the whole economy. This has no economic philosophy, however.

Recommendations

It is incontrovertible fact that the governments of the day should be highly conscious of the conflicting effects of any particular macroeconomic policy formulated on the achievement of other micro economic objectives. As a result, any pro-active measures adopted by the governments to pursue the stability or achievement of certain macro objectives must at the same time take cognizance of the need of palliative measures required to cushion the possible unfavourable third e.g. crude-oil which is highly vulnerable to global forces. The basis of generating foreign exchange should be broaden and sustainable thereby any shock from the global market could be cushioned by other functional sectors so that the nation's foreign reserves would be sustainable to finance the needs of the economy in the global market for a considerable period of time before the restoration of equilibrium condition.

The devaluation of Naira by almost 30% during the period that the nation is in quest of industrialization is unfavourable because almost 70% of Nigeria SMEs input are source from abroad. The Naira should not be undervalued excessively in order not to be counterproductive on the SMEs. The policy makers and Nigeria Governments should know that there is a chronic tendency for excess demand for foreign exchange (Dollar) to exist at any exchange rate because apart from the import demand of production inputs and stocks the capital flight phenomenon cannot be discouraged in a country like Nigeria because Nigerians and Non-Nigerians would want to repatriate savings abroad in order to appreciate better than it would be in Nigeria (Fashola, 2005).

It is important to emphasize the needful of the monetary authority to introduce palliative measures whenever strict restrictive monetary policies are adopted to avoid strangulation of the SMEs. The authority should cushion the strangulating effect of restrictive monetary policies by simultaneously employing its fiscal power (favourable taxation and funding policies) which needs to be directed mainly to the sector, SMEs that is at receiving end of the earlier adopted policies.

As part of the palliative measures, the CBN should partner with the various State's Chamber of Commerce and consult them on regular basis to uncover the implications of certain policies promulgated by it on the SMEs and Nigeria business environment in general. The monetary authority should also create a fund channeling platform through which the SMEs operators in Nigeria can access credit facility in conjunction with other mediums that the Government has been employing which their efficiency is yet to be felt in this sector of the economy. This may be resulting from the failure of the institutions to administer the facilities on merit basis. The study herein recommends that Government should partner with these chambers of commerce because they serve as the representative organ of the business community that can identify genuine investors and monitor the disbursement, judicious utilization and repayment of such facilities. Meanwhile, the commercial bank as a joint stock company would always be ready to give out loans in pursuance of its profit-oriented objective irrespective of the CBN credit guideline or control.

It is high time Nigeria economy to be inward looking by ensuring the following:

The federal government of Nigeria should revisit the educational policy and emphasize the vocational and technical education with high political-will so that the output of our tertiary institutions and technical institution would be equipped with the necessary skills required to invent and capable of adapting the foreign equipments to the industrialization needs of the nation. The success story of China today is not unconnected to the serious attention paid to it educational system and made it functional one (Yusuf, 2014).

The resuscitation of the agricultural sector is a right action at the right time. There is need to make this sector more virile and be able to provide effectively the forward linkage process required to be able to absorb at least 60% input needs of our manufacturing sectors. Besides, efforts should be made to ensure that the role of the sector is not limited to input provision role but its foreign exchange earning capacity should be strengthening. The study opined that if the aforementioned policy prescriptions can be observed there would not be need for the government officials, political office holders and Government's monetary agencies to be running helter-skelter, making panic economic measures during the event of global economic quagmire. Consequently, the SMEs in Nigeria will be able to compete with the foreign competitors and the industrialization need of the economy can be achieved harmoniously with the nation's economic growth and socio-economic development.

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To the Glory of Almighty God.

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