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BANKING LENDING POLICY AND PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES (SMEs) IN NIGERIA

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ABSTRACT

This study examined the effect of banking, lending policy on the SMEs' performance in Nigeria. The SMEs sector in Nigeria has been facing many difficulties in having access to the needed funds to run its business activities successfully. The commercial banks are reluctant to grant loans to the SMEs because they believe that giving loans to the SMEs is a risky business. Twenty four years macroeconomic data, from 1992 to 2015, were collected from the CBN Statistical Bulleting for this study. The findings indicate that SMEs sector is facing problem in accessing the needed loans from the commercial banks; while the commercial banks loans granting to the private sector are increasing, the commercial banks loans to the SMEs are declining; interest rate, commercial banks loans to the private sector have significant effects on SMEs' performance, but commercial banks loans to the SMEs, exchange rate, and inflation rate do not have significant effect on SMEs performance.

KEYWORDS: *Commercial Bank, Loan, SMEs, Nigeria, Macroeconomic*

INTRODUCTION

The succeeding Nigerian government administrations have been introducing different economic policies in order to stabilize the nation's economy that has been going through one problem or the others after the independence. Nigeria got its independence from the British, the colonial master; fifty- seven years ago. At age of fifty- seven, Nigeria is still struggling to have a stable economy that will provide employment opportunity for its citizens. The failure of the past economic policies can be attributed to the lack of economic policies that will develop the SMEs sector and enhance its performance. SMEs sector has been recognized as the pillar of any nation's economy as it creates an employment opportunity more than any other sectors. The focus on the large industries at the detrimental of the SMEs has not been helpful to the Nigerian economy. The SMEs sector has been struggling to have access to funds from the banking sector, but the accessibility to these funds is very difficult due to the stringent conditions demanded from the SMEs by the banking sector. Access to the funds to acquire the needed assets and working capital for the day to day running of the business makes a strong determinant of firm success or failure. The SMEs that is the backbone of economic development of any nation is not getting the needed help it deserved. The initiatives introduced so far to improve the Nigerian economy did not have any positive impact on the nation's economy (Olokoyo, 2011; Imoughele & Ismaila, 2014; Uremadu, Ani, & Odili, 2014; Dada, 2014; Atarere, 2016, Hassan, Aku, & Aboki 2017; Eniola & Entebang, 2015; Okhankhuele, 2017).

In addition to the different Nigerian government administrations previous economic policies, the Central Bank of Nigeria (CBN) approved and asked Bank of Industry (BOI) to issue the sum of ₦500 billion debenture stock with effect from May 2010. The money raised from the debenture stock is aimed at helping the SMEs to have access to the needed funds. The sum of ₦300 is for infrastructure in the area of power project and the remaining ₦200 billion is to restructuring and refinancing the existing SMEs loan portfolio, especially in the manufacturing sector. The ₦200 billion is under Small and Medium Enterprises Credit Guarantee Scheme (SMECGS) and the funds shall be provided by the CBN. The SMECGS would provide a guarantee for the SMEs who are seeking funds from the lenders. The aims of this project are to increase SMEs output, generate employment, diversify the revenue generation base, increase foreign exchange incomes, and to have uninterrupted inputs for the industrial sector. The main goal of all these aims is the revolutionization of the Nigerian economy (Central Bank of Nigeria, n. d.). From the Structural Adjustment Programme (SAP) in the year 1986 that's supposed to reduce the stringent conditions placed on the SMEs by the commercial banks, recapitalization of the banking sector from ₦2 billion to ₦25 billion, with effect from 2006 that supposed to help in the development of the SME and enhancement of its performance, and many other initiatives; the Nigerian economy remains a serious concern for all stakeholders. The research findings are showing declines in the loans provided to the SMEs by the banking sector year by year (Uzonwanne, 2015; Anigbogu, Okoli, & Nwakoby, 2015; Dada, 2014; Taiwo, Falohun, & Agwu, 2016).

It is well known that no nation can develop economically without effective and efficient economic policies that will focus on the SMEs development. The question now is: What could have gone wrong with all these initiatives that different Nigerian government administrations have taken without positive results? This study examines the effect of banking, lending policy variables on the performance of the SMEs as well as establishing any relationship between the banking lending policy variables and the performance of the SMEs. The rest of the study is divided into a theoretical foundation and related literature review, methodology, data analysis and discussion, and conclusion and recommendations

Statement of the Problem

The monetary and fiscal policies of a nation dictate the economy of such nation and everything in the nation revolves around the economy. When the nation's economy is good, other economic activities will also be good and vice versa. Nigerian economy has been struggling because of the lack of monetary and fiscal policies that supposed to change the current economic situation for better. The SMEs sector plays a significant and dominant role in the development of national economy, but this sector is not getting the kind of economic policies needed for its development and performance enhancement. Research findings indicate that banking, loans granted to the SMEs are declining rapidly. The lack of SMEs' access to funds has been preventing the sector to reach its potential. Even the percentage of loans given to the SMEs compared to the total loan given to the private sector are declining. If the SMEs sector has a problem in having access to the needed funds, then this problem will continue to prevent the SMEs sector from contributing its share to the development of the Nigerian economy. Other problems mentioned by other researchers aside from access to finance are lack of: infrastructure, management commitment, access to modern technology, inconsistent government policy, multiple taxes and levies, unfair competition, marketing related problem, local raw materials, and corruption from the bank officials. However, the problem of lack of access to finance is a major problem (Uremadu, Ani, & Odili, 2014; Uzonwanne, 2015; Muritala, Awolaja, & Bako, 2012; Eniola, 2014).

The reduction in the loans granted to the SMEs compared to the loans granted to the private sector, higher lending rate, fluctuating foreign exchange rate, and high inflation rate is working against the SMEs. This sector supposed to contribute to the GDP more than the large industries but because of unfavorable economic conditions, such is not the case. It is going to be difficult for the SMEs to compete with the large industries in having access to funds because of the high- interest rate, fluctuating foreign exchange rate, and high inflation rate. These unfavorable macroeconomic variables have resulted in an increase in unemployment and poverty. Based on the aforementioned problems mentioned in the statement of the problem, this study investigates the effect of banking, lending policy variables on the SME performance (Dada, 2014; Imoughele & Ismaila 2014).

Research Objectives

The main objective of this study is to examine the effect of the banking, lending policy variables on the performance of the SMEs in Nigeria. The specific objectives are to:

- Examine the effect of commercial bank loans to the SMEs on the SMEs' performance in Nigeria
- Assess the effect of commercial bank loans to the private sector on the SMEs' performance in Nigeria
- Evaluate the effect of interest rate on the SMEs' performance in Nigeria
- Investigate the effect of foreign exchange rate on the SMEs' performance in Nigeria
- Assess the effect of inflation rate on the SMEs' performance in Nigeria
- Examine the combined effects of banking, lending policy variables on the SMEs' performance in Nigeria

Research Questions

Research questions for this study are:

- What is the effect of bank loans to the SME on SMEs' performance in Nigeria?
- How do commercial bank loans to the private sector affect the SMEs performance in Nigeria?
- In what way does the interest rate affect the SMEs' performance in Nigeria?
- To what extent does foreign exchange rate affect the SMEs' performance in Nigeria?
- How does inflation rate affect the SMEs performance in Nigeria?
- What are the combined effects of banking, lending policy variables on the SMEs' performance in Nigeria?

Research Hypotheses

The research hypotheses for this study are:

H_{01}: Bank loans to the SMEs do not have a significant effect on the SMEs' performance in Nigeria.

H_{02}: Commercial bank loans to the private sector do not have a significant effect on the SMEs' performance in Nigeria.

H_{03}: Interest rate does not have a significant effect on the SMEs' performance in Nigeria.

H_{04}: Foreign exchange rate does not have a significant effect on the SMEs' performance in Nigeria

H_{05}: Inflation rate does not have a significant effect on the SMEs' performance in Nigeria.

H_{06}: The combined banking, lending policy variables do not have a significant effect on the SMEs' performance in Nigeria.

Operationalization of Variables

The variables in this study are operationalized as follows:

X = Banking, Lending Policy – Independent Variable

Y = SMEs Performance – Dependent Variable – Proxy by SMEs contribution to GDP

$X_t = (x_{1t}, x_{2t}, x_{3t}, x_{4t}, x_{5t})$ x_{1t} = Commercial Bank Loans to the SMEs

x_{2t} =Commercial Bank Loans to Private Sector

x_{3t}= Interest rate

x_{4t} = Foreign Exchange Rate

x_{5t} = Inflation Rate

Model Specification

$Y_t = \beta_0 + \beta_1 x_{1t} + e_t$ Equation **(1)**

$Y_t = \beta_0 + \beta_2 x_{2t} + e_t$ Equation **(2)**

$Y_t = \beta_0 + \beta_3 x_{3t} + e_t$ Equation **(3)**

$Y_t = \beta_0 + \beta_4 x_{4t} + e_t$ Equation **(4)**

$Y_t = \beta_0 + \beta_5 x_{5t} + e_t$ Equation **(5)**

$Y_t = \beta_0 + \beta_1 x_{1t} + \beta_2 x_{2t} + \beta_3 x_{3t} + \beta_4 x_{4t} + \beta_5 x_{5t} + e_t$ Equation **(6)**

Significance of the Study

Given the importance of the SMEs contribution to the GDP, this study will help the policy makers to refocus their attention on what is needed to revitalize the SMEs sector in order to develop the Nigeria economy. The policymakers will be guided by the findings of this study on what needed to be done to develop the SMEs sector in Nigeria. The management of the SMEs will also benefit from the findings of this study as this study will shed more lights on what is going on in the SMEs sector. The society will benefit from the development of the SMEs as this will enable the sector to contribute its quota to the GDP which will result in the economic development in Nigeria.

THEORETICAL FOUNDATION

The underpinned theory for this study was the Keynesian theory of consumption, savings, investment, and interest rate. This theory supports both saving and spending in the sense that saving without spending does not support investment. The theory believes that the equality in saving and investment is due to the national income and not the interest rate.

Keynes consumption theory assumed that as individuals' income increases their consumption would also increase. Though, the increment is not going to be in the same proportion. He argues that the increment in the income would be more than the increment in the consumption. That is, the individuals would consume more as a result of the increment in their income, but the increment in the consumption would be lesser than the increment in the income. Keynes believes that the consumption of the individuals would be determined by the amount of disposable income available for such individuals. This theory was criticized because the critics believed that the theory was based on the accumulated human experiences without numerical or empirical study to validate the theory. It was also criticized because Keynes could not explain the reason why the increment in the income resulted in increment in the consumption. There is a difficulty in having consumption models because of the interdependence of the income of the individuals in the household. That is, it is difficult to have a consumption model when the income in the household is coming from more than one person (Parker, 2010; Keynes, 1936).

Keynes theory of equality of saving and investment emphasized that the saving and investment are equal all the times. He argued that the change in the income is the determinant of the equality in the saving and investment. However, the critics of Keynes about this theory indicated that while Keynes is prescribing the equality between the saving and investment every time, he also indicated at a point that saving and investment are equal when the two of them are in equilibrium. The critics argued that Keynes position of the equality in saving and investment is contradictory since his position presented double views on the equilibrium between the saving and the investment (Pal, n. d; Keynes, 1936).

Keynes is interested in government intervention by engaging in spending more during worsen the economic condition in order to stabilize the nation's economy. The stabilization of the economy would provide more employment that would increase the income of the individuals which would translate to the improvement in the GDP through increased output. The government would then later generate income from the employed individuals through taxation. Keynes believed that government intervention through spending has a significant effect on managing the national economy than implementing the policy of tax reduction. Keynes posits that encouraging saving rather than spending during the economic downturn is a wrong policy prescription for economic growth. The spending would increase the consumption of the goods produced thus enables the producers to produce more goods for consumption. This policy of spending rather than saving would allow the organizations to employ more workers that would enable the government to increase its tax base through the collection of taxes from the newly employed individuals. As a result, the economy would improve and the improvement of the economy would translate to the increment in the GDP. Keynes does not believe the spending in improving the economy would result in an increased inflation rate. Rather, he believed that the spending policy during the weak economic condition would not significantly affect the inflation rate. Keynes believed that policies that would reduce interest rate as well as easing access to the loan are helpful in the improvement of the economy during the economic downturn (Fabris & Galic, 2015; Keynes, 1936).

Keynes theory of interest rate believed that interest rate plays a significant role as a determinant factor in the level of employment, the supply of the money, and the investment development of the nation. The theory believed that the amount of money needed for a given period and the amount of money available for such period normally determined the interest rate. That is the demand and supply of the liquidity play crucial role in determining the interest rate. The theory also emphasized the importance of relinquishing control over the liquidity for a certain period of time in order to have funds available. The critics argued that the Keynes theory of interest rate is ambiguous and contradictory. They argue that calling interest rate a price and at the same a compensation and reward is contradictory. They argued that Keynes theory of interest rate implicitly made interest rate which is dependent variable to depend on itself. The critics concluded that Keynes theory of interest rate is not arrived at scientifically (Applet, 2016; Keynes, 1936).

The theory reviewed for this study is relevant to the study because it explains the interaction between the banking, lending policy variables and the performance of the SMEs. The variables of the banking, lending policy as well as the performance of the SMEs, were covered in this theory. Therefore the employment of the theory reviewed for this study is justified.

Related Literature Review

Many research findings on the performance of the SMEs sector have been consistent in the sense that the performance of this sector is not close to expectation. The sector that supposed to employ about ninety percent (90%) of the Nigerian workforce is contributing around ten percent to the GDP. Dada (2014) studied the influence of the commercial banks' credit to SMEs in Nigeria. The findings of the study indicate that commercial banks' credit to the SMEs and saving and time deposit of the commercial banks have a positive effect on the development of the SMEs in Nigeria. The study also indicates that the interest rate and exchange rate have an unfavorable effect on the development of the SMEs. The study also found commercial banks' credit to the SMEs and saving and time deposit of the commercial banks as significant variables that contribute significantly to the improvement of the development of the SMEs in Nigeria.

Anigbogu, Okoli, and Nwakoby (2015) studied the financial intermediation and SMEs performance in Nigeria from the year 1980 to 2013. Their research findings revealed that survival rate and the performance of the SMEs are very low. They look at the performance and survival of the SMEs sector from its contribution to the GDP. They argue that despite the government initiatives in the areas of credits (loans), savings, micro-leasing, micro-insurance, payment transfer to poor and low income households that are economically active; these initiatives are not reflecting on the performance of the SMEs. Chukwuma and Chukwuma (2015) investigated the implications of the economic factors on small scale business performance in Nigeria. The finding of the study indicated that economic factors such as high inflation rate, exchange rate, government tax revenue, external finances, and interest rate have a significant effect on the performance of the small scale businesses in Nigeria. The interest rate, inflation rate, and exchange rate both have significant negative effect on the performance of the small-scale businesses. The increment in these three variables would cause a decrement in the performance of the small scale business in Nigeria. The study concluded that the federal government should prescribe rules and regulations that would ensure stable interest rate and exchange rate as well as the low inflation rate. These researchers believed that the prescriptions would enhance the improvement and development of the small scale business in Nigeria.

Ubesie, Onuaguluchi, and Mbah (2017) examined the effect of the deposit money bank credit on small and medium scale enterprises growth in Nigeria. The finding of the study indicated that the loan granted to the small and medium scale enterprises by the deposit money bank did not have a significant effect on the small and medium scale enterprises growth in Nigeria. The study also indicated that the loan granted to the private sector by the deposit money banks has a significant effect on the small and medium scale enterprises growth in Nigeria. It further indicated that the interest rate demanded by the deposit money banks and expected to be paid by the small and medium scale enterprises has a significant effect on the small and medium scale enterprises in Nigeria. Afolabi (2013) examined the effect of SMEs financing on the economic growth in Nigeria. The finding indicated that commercial banks' credit to the SMEs and exchange rate positively influence the economic growth in Nigeria. The study also found that commercial banks' interest rate has negative effects on the economic growth in Nigeria. The study also found commercial banks' credit to the SMEs as a variable that significantly influenced the development of the economic growth in Nigeria. Ayuba and Zubairu (2015) investigated the impact of the banking sector credit to the SMEs on the SMEs' growth. The finding of the study indicated that the banking sector credit to the SMEs a has significant impact on the SMEs' growth.

Eferakeya (2014) carried out a comparative study on the accessibility of the SMEs to the funds before and after the bank consolidation of 2005. The study findings indicate that the SMEs' access to the funds after the consolidation is worse in the post consolidations than pre-consolidation. The study argues that despite the fact that the commercial lending risk is higher during pre-consolidation than the post-consolidation, yet the banking sector is not willing to grant a loan to the SMEs. Other issues that this study pointed out as the hindrance to the SMEs access to the finance are: insufficient or no collateral security, lack of proper accounting records, information asymmetry, unaudited financial reports, lack of transparency of SMEs' financial reporting, stringent measures put in place by the banking sector. Imoughele and Ismaila (2014) study indicated that selected microeconomic variables have a long run relationship with SMEs' performance. Their study findings indicate that savings time deposit and exchange rate have a significant impact on SMEs' performance. The study findings also indicate that commercial bank credit to SMEs, total government expenditure, and bank density have no significant impact on the performance of the SMEs. The research findings also confirmed that interest rate has an adverse effect on SME's performance.

Uremadu, Ani, and Odili (2014) study indicate the same trend that other research findings have been confirmed. Their study findings indicate that despite the significance of the total banking credit to the private sector, the banking credit to the SMEs is not significant. The study findings also indicate that the percentage of the banking credit to the SMEs as a percentage of the total credit to the private sector is declining. The study findings indicate that lending rate has a negative and significant impact on economic growth in Nigeria. Uzonwanne (2015) examined the efficiency of Nigerian banking institutions in meeting the SMEs' needs in terms of financial resources. The research findings indicate that the financial institutions in Nigeria have not met the financial needs of the SMEs. The research findings conclude that the funds have not been available to the SMEs as they supposed, to as the SMEs sector has problems in having access to the funds. The research findings also indicate that there is inefficiency in the banking operation that needs to be improved. The study also indicates that the lending rates and savings rates are unfavorable to the SMEs. According to Uzonwanne (2015), these kinds of findings will make it difficult for the SMEs to embark on savings and investments that will enable them to make a meaningful contribution to the economic growth of Nigeria.

Ajagbe (2012) studied the relationship between inflation and small and medium enterprises growth in Ogbomoso area, Oyo State, Nigeria. The finding of the study indicated a positive relationship between the inflation and the small and medium enterprises growth. Olokoyo (2011) examined the banking, lending practice in the Nigerian banking sector. The research findings indicate profitability, liquidity, and solvency as the guiding principles for the banking business activities. The research findings also emphasized on the prevailing interest rate, the volume of deposits, the banks' domestic and foreign investment, banks liquidity ratio, and prestige and public recognition as the determinants of the commercial bank's attitude towards lending

METHODOLOGY

The research design for this study is ex post facto research design. The researcher has chosen this research design because secondary data was collected for the study. The data on the banking, lending policy and performance of the SMEs in Nigeria were collected from the CBN Statistical Bulletin for 24 years ranging from 1992 to 2015. The Statistical Package for Social Sciences (SPSS version 23.0) was used to process the data and simple and multiple regression analyses were used to analyze the data.

Research Model Specification

X = Banking, Lending Policy – Independent Variable

Y = SMEs Performance – Dependent Variable – Proxy by SMEs contribution to GDP

X sub-variables:

x_1 = Bank Loans to the SMEs

x_2 = Commercial Banks, Loans to Private Sector

x_3= Interest rate

x_4= Foreign Exchange Rate

x_5 = Inflation Rate

Model Specification

$Y_t = \beta o + \beta_1 x_{1t} + e_t$

$Y_t = \beta o + \beta_2 x_{2t} + e_t$

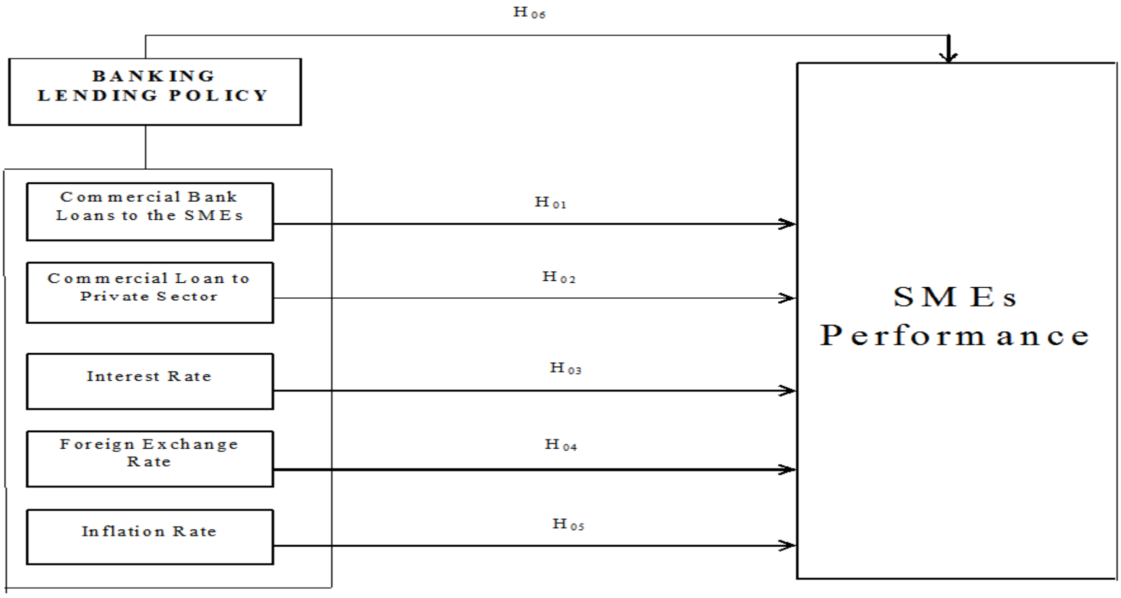
$Y_t = \beta o + \beta_3 x_{3t} + e_t$

$Y_t = \beta o + \beta_4 x_{4t} + e_t$

$Y_t = \beta o + \beta_5 x_{5t} + e_t$

$Y_t = \beta o + \beta_1 x_{1t} + \beta_2 x_{2t} + \beta_3 x_{3t} + \beta_4 x_{4t} + \beta_5 x_{5t} + e_t$

The figure 1 shows the research model to investigate the effect of bank lending policy on the performance of the SMEs in Nigeria.



Source: Developed by Researcher

Figure 1: Conceptual Model

DATA ANALYSIS AND DISCUSSIONs

Table 1: ANOVA (F-test) Result

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.935	5	.787	330.504	.000[b]
	Residual	.043	18	.002		
	Total	**3.978**	**23**			

a. Dependent Variable: Log of SMEs Contribution to GDP

b. Predictors: (Constant), Inflation Rate, Log of Commercial Banks Loan to SMEs, Interest Rate, Exchange Rate, Log of Commercial Banks Loan to Private Sector

Table 2: Regression Coefficient Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(Constant)	7.188	.732		9.822	.000	5.650	8.725
Log of Commercial Banks Loan to SMEs	-.178	.090	-.116	-1.975	.064	-.368	.011
Log of Commercial Banks Loan to Private Sector	.606	.077	1.097	7.904	.000	.445	.768
Interest Rate	.011	.004	.119	2.980	.008	.003	.019
Exchange Rate	-.001	.001	-.095	-.782	.444	-.003	.002
Inflation Rate	-.001	.001	-.024	-.606	.552	-.002	.001

Source: SPSS Output Result

Table 1 indicates that the model specification is significant with the F p-value of .000

H_{01}: Bank loans to the SMEs do not have a significant effect on the SMEs' performance in Nigeria.

For hypothesis one, the results in table 2 indicate :(B = -.178, t = -1.975, p = .064). This means that commercial banks loans to the SMEs do not have asignificant effect on the SMEs' performance in Nigeria. Therefore the null hypothesis cannot be rejected. This finding is in line with previous research findings of Imoughele and Ismaila (20014), Uremadu, Ani, and Odili (2014), Ubesie, Onuaguluchi, and Mbah (2017) and others who claimed that the insignificant of the banks' loans to the SMEs is due to lack of access to the bank loan by the SMEs. It also corroborates the research finding of Ubesie, Onuaguluchi, and Mbah (2017) which indicated that the loan granted to the small and medium scale enterprises by the deposit money bank did not have a significant effect on the small and medium scale enterprises growth in Nigeria. Eferakeya (2014) research finding also indicated that post bank consolidation does not favor SMEs sector as the amount of loans granted to the sector is declining when compared to the total loans granted to the private sector. Since the hypothesis, one has confirmed the insignificant effect of the bank loans on the SMEs which means that both research objective one and research question one has no effect on the SMEs' performance. Though, the findings of the study carried out by Dada (2014) and Afolabi (2013) were contrary to the finding of this study. Dada (2014) and Afolabi (2013) found that commercial banks' credit to the SMEs has a significant effect on the development of the SMEs in Nigeria. Though, Afolabi (2013) used economic growth in his study and not SMEs' performance. But since SMEs' performance is measured by the contribution of the SMEs to the GDP and GDP is the measure of the economic growth, it is appropriate to use his study to discuss the result of this hypothesis.

H_{02}: Commercial bank loans to the private sector do not have a significant effect on the SMEs performance in Nigeria.

In table 2 the result of hypothesis two indicates: (B = .606, t =7.904, p = .000). This result indicates that hypothesis two is significant. This means that bank loans to the private sector have asignificant effect on the performance of the SMEs in Nigeria. Therefore, the null hypothesis is rejected. This corroborates the previous research findings which stated that while the bank loans to the SMEs are declining, the bank loans to the entire private sector are increasing. The result of this hypothesis is in line with the research findings of Uremadu, Ani, and Odili (2014) and others who claimed that the banks are granting more loans to the large companies because they are exposed to lesser risk than granting loans to the SMEs. It is also in support of the research finding of Ubesie, Onuaguluchi, and Mbah (2017) that indicated that the loan granted to the private sector by the deposit money banks has asignificant effect on the small and medium scale enterprises growth in Nigeria. The answer to research ,question two is that the bank loans to the private sector have an effect on the performance of the SME in Nigeria.

H_{03}: Interest rate does not have a significant effect on the SMEs' performance in Nigeria. In table 2, the result of hypothesis 3 indicates (B = .011, t = 2.980, p = .008). Hypothesis 3 is significant and as a result, the null hypothesis is rejected. This means that the interest rate has a significant effect on the SMEs' performance in Nigeria. Though, most previous research findings have found significant effects of interest rate on the performance of the SMEs. But previous findings indicated adverse effect. The result of hypothesis 3 did not show adverse an effect of interest rate on the SMEs' performance. The difference between this finding and previous findings may be due to the time period covered and fluctuation in the interest rate. However, the finding of this study supports the finding of Ubesie, Onuaguluchi, and Mbah (2017) which indicated that the interest rate demanded by the deposit money banks and expected to be paid by the small and medium scale enterprises has a significant effect on the small and medium scale enterprises in Nigeria. Imoughele and Ismaila (2014) found that interest rate has an adverse effect on SMEs' performance. Uzonwanne (2015) research finding also indicated that interest rate is not favorable to the SMEs. Also, the findings of Dada (2014) indicated that interest rate has an adverse effect on the development of the SMEs and Chukwuma and Chukwuma (2015) found that interest rate has a significant adverse effect on the performance of the small scale business in Nigeria. The research objective 3 and research question 3 will also go in the direction of the hypothesis 3, which means interest rate has an effect on the performance of the SMEs.

H_{04}: Foreign exchange rate does not have a significant effect on the SMEs' performance in Nigeria.

In table 2, the result of the hypothesis 4 indicates (B = -.001, t = -.782, p = .444). Hypothesis 4 is not significant; therefore the null hypothesis cannot be rejected. This means that exchange rate does not have a significant effect on the SMEs' performance in Nigeria. This is contrary to the Imoughele and Ismaila (2014) that found significant impact of exchange rate on the SME performance. Afolabi (2013) also found that exchange rate has a positive influence on the economic growth in Nigeria. But Dada (2014) found unfavorable effect of the exchange rate on the development of the SMEs. Conventionally, stable exchange rate is favorable to the business organization, especially the SMEs. The Unstable exchange rate may add to the cost of production, especially when the importation of raw materials is involved. This type of situation may even force some SMEs out of business. Chukwuma and Chukwuma (2015) advised the federal government to pursue policies that would stabilize the foreign exchange rate ,which would enhance the performance of the small scale business in Nigeria. This type of policies would enhance the performance of small scale businesses in Nigeria thus prevent them from going out of business. The answer to the fourth research question is that exchange rate does not have an effect on the SMEs' performance.

H_{05}: Inflation rate does not have a significant effect on the SMEs' performance in Nigeria.

In table 2, the result of hypothesis 5 indicates (B = -.001, t = -.606, p = .552). Hypothesis 5 is not significant and this means the null hypothesis cannot be rejected. This means that the inflation rate has no significant effect on the SMEs performance. The finding of this study is contrary to the finding of Ajagbe (2012) which indicated a direct positive relationship between the inflation and the small and medium enterprises growth. It is also contrary to the finding of Chukwuma and Chukwuma (2015) which indicated that inflation rate has significant effect on the performance of the small scale business in Nigeria. As a result, the study called on the federal government to come up with policies that would result in lower inflation rate that would enhance the improvement and performance of the small scale businesses in Nigeria.

Table 3: Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.995[a]	.989	.986	.049	1.788
a. Predictors: (Constant), Inflation Rate, Log of Commercial Banks Loan to SMEs, Interest Rate, Exchange Rate, Log of Commercial Banks Loan to Private Sector					
b. Dependent Variable: Log of SMEs Contribution to GDP					

H_{06}: The combined lending policy variables do not have a significant effect on SMEs' performance.

Hypothesis 6 tested the combined effect of independent sub-variables on the SMEs' performance. The hypothesis 6 results in table 3 indicates R = .995 which means a strong positive relationship between commercial banks loans to SME, commercial banks loans to the private sector, interest rate, exchange rate, inflation rate and SMEs' performance. They may all have a strong relationship with the SMEs' performance, but not all of them are significant. R^2= .989 which is almost identical to adjusted R^2 = .986. The adjusted coefficient of determination of .986 indicates that 98.6% of the variation in the SMEs' performance can be explained by the variation in the combined lending policy variables. Table 2 indicates that not all of the independent sub-variables contributed to the explanation of the variation in the SMEs' performance. Commercial banks loans to the SMEs, exchange rate, and inflation rate have no significant effect on the SMEs' performance. As a result, they cannot reliably explain the variation in the SMEs' performance. Commercial banks loans to the private sector and interest rate have a significant effect on the SMEs' performance and the variation in these two variables can reliably explain the variation in the SMEs' performance.

CONCLUSION AND RECOMMENDATIONS

The attitude of the commercial banks towards the SMEs in terms of granting loans has not been encouraging. The SMEs sector is having a difficult time in getting access to the funds needed to acquire the needed assets as well as for operation expansion. The structural adjustment programme, consolidation of the banks, and other policies introduced by the different Nigerian Government administrations to help the SMEs accessing the needed funds have not been helpful to the SMEs. The SMEs sector is even facing more difficulties in having access to the needed funds in post bank's consolidation than pre banks consolidation. The belief of the commercial banks that granting loans to the SMEs is a risky business is not helping the SMEs. The SMEs sector has not been able to fulfill its role as a main contributor to the Nigerian economy due to the lack of access to the needed loans from the commercial banks. While the commercial bank's loans to the private sector are increasing, the ratio of commercial bank's loans to the SMEs compared to the commercial loans to the private sector is declining. It is going to be difficult for the Nigerian nation to get out of the current economic hardship unless the present government administration and the subsequent ones focus their attention to revitalize the SMEs. Based on the findings of this study, this study recommends that: i. The commercial bank's loans to the SMEs should be increased to the point that will allow the SMEs get the needed funds. ii. While it is true that the large corporations may be used as a measure of the nation's industrialization, research findings have confirmed that SMEs sector provides more employment opportunities to the nation's workforce. As a result, part of the commercial bank's loans to another private sector should be redirected to the SMEs. iii. The interest rate should be made available to the SMEs at a reasonable cost. iv. Though the exchange rate is not significant in this study,, but stable exchange rate is in the best interest of all business organizations, especially the SMEs. Therefore, the government should embark on economic policies that will ensure the stability of the exchange rate. v. Though, the inflation rate is not significant in this study, but the government should pursue policies that will reduce it as it determines the purchasing power of the consumers. Implementing these recommendations will help in bringing out Nigerian economy out of its present situation.

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