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Monetary Policies and the Performance of Small and Medium Enterprises in South East Nigeria.

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ABSTRACT

This study aims to investigate the impact of monetary policies on the performance of Small and Medium Enterprises (SMEs) in South East Nigeria. Extensive literature related to monetary policies and SME performance was reviewed. Primary data was collected for the study, employing a questionnaire designed by the researcher to align with the study's objectives and facilitate comprehensive analysis. The target population comprised SMEs registered under both the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and the Corporate Affairs Commission (CAC) within the southeast geopolitical zone. The total count of SMEs listed with SMEDAN as of December 2021 stood at 29,953, distributed across Anambra (8,990), Ebonyi (3,317), Imo (6,341), Enugu (5,101), and Abia (6,204) states. A sample size of 395 was determined using Taro Yamane's (1964) formula, and the study adopted a multi-stage sampling technique. Quantitative data collected via the questionnaire were subjected to descriptive statistical analysis. The formulated hypotheses were tested using Pearson's correlation coefficient. The findings of the study indicated that exchange rate has a significant positive effect on the return on capital of SMEs in Southeast Nigeria ($R^2 = 0.060$), and interest rate has a significant positive effect on the return on capital of SMEs in the same region ($R^2 = 0.6708$). Based on these results, the study recommends that the Federal government should undertake a thorough review of its monetary policies, collaborating with the Central Bank, to enhance the growth of small and medium-scale enterprises in Nigeria. Additionally, a stable approach to exchange rate management should be embraced, avoiding frequent and abrupt strategy shifts that can impact sectors reliant on foreign inputs.

I. INTRODUCTION:

The vitality of Micro, Small, and Medium Enterprises (MSMEs) plays a pivotal role in shaping global economies. Conversely, when these enterprises falter, the repercussions reverberate throughout the entire economic landscape. In the context of Nigeria, the hindered growth of its economy has been frequently attributed to multifarious factors, prominently among them being the detrimental impact of flawed fiscal policies. These policies have given rise to disjointed tax administration and unsound monetary strategies, culminating in an unstable exchange rate that significantly hampers the production capacity of MSMEs (Yitzhaki, 2016).

A prominent obstacle thwarting the expansion of MSMEs relates to the trifecta of challenges posed by excessive taxation, interest rate fluctuations, and the volatile exchange rate. Among these, the burden of taxes on MSMEs stands out as a prominent factor stifling economic growth, ranking second only to the most prominent impediment (Thuronyi, 2019). Thuronyi (2019) asserts that taxes function as onerous burdens, demoralizing existing investors and deterring potential ones.

The business landscape in Nigeria is presently beleaguered by a surfeit of taxes emanating from federal, state, and local

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governmental bodies. Consider the plight of a local restaurant owner, a barber, or a hairdresser; in addition to contending with taxes from various tiers of governance, they must also grapple with the costs of powering their establishments via generators and meeting staff remuneration commitments. This compounding of expenses places them in a daunting predicament, making it arduous to generate profits substantial enough to sustain their operations (Garnsey, Stam, and Heffernan, 2016).

Beyond the realm of taxation, the Nigerian economy wrestles with a plethora of growth and stability challenges, while simultaneously striving to reconfigure its structure to align with the demands of the twenty-first century. Despite the existence of numerous growth paradigms, models, and monetary tools at the disposal of policymakers, sustained economic growth remains elusive. The economy remains susceptible to external shocks and internal perturbations. Among the pivotal macroeconomic indicators, the exchange rate, bank interest rates, and taxation emerge as the most closely scrutinized, dissected, and government-manipulated metrics.

In the period preceding the introduction of the Structural Adjustment Program (SAP) in 1986, the Nigerian Naira enjoyed a favorable valuation against the US dollar, a condition conducive to rapid economic advancement and stability (Okwuchukwu, 2018). However, the advent of this economic restructuring initiative ushered in an era of erratic exchange rates, casting a shadow of uncertainty over the Nigerian business ecosystem. Small and medium-sized domestic investors now find themselves grappling with substantial risks, as the foreign exchange market's performance remains an enigma that even the most astute minds struggle to predict.

Amplifying the challenge of taxation's impact on MSME growth is the dearth of dependable data for robust statistical analysis. The attrition rates among MSMEs are distressingly high, with exchange rate and interest rate vagaries emerging as key culprits. Despite the emphasis on monetary policy interventions, particularly concerning the Dollar-Naira exchange rate and credit facilitation for MSME expansion, these enterprises continue to fall short of projected growth targets.

Existing research indicates that the Nigerian government has intervened in the SME sector through monetary policies, facilitating access to credit through financial services such as loans, micro-leasing, and payment transfers to economically disadvantaged households (Imoughele and Ismaila, 2014). However, these initiatives have yielded limited improvements. The extent of the influence of bank interest rates on MSME performance remains a point of uncertainty.

Nonetheless, a conspicuous gap in the literature pertains to the dearth of attention given to the collective impact of macroeconomic financial indicators, encompassing exchange rates, bank interest rates, and the labyrinthine taxation system, on the performance of MSMEs in Nigeria. This study endeavors to fill this void, focusing on unveiling the intricate interplay between these multifaceted factors and their cumulative effects on the trajectory of MSMEs in Nigeria.

Objectives of the Study

The main objective of this study is to determine the effect of monetary policies on Micro, Small and Medium Enterprises Performance in South East Nigeria.

Specifically, the study intends to:

i. Ascertain the effect of exchange rate on Return on Capital of MSMEs in Southeast Nigeria.
ii. Assess the effect of interest rate on return on capital of MSMEs in Southeast Nigeria.
iii. Ascertain the effect of exchange rate on Return on Investment of MSMEs in Southeast Nigeria.
iv. Assess the effect of interest rate on return in investment of MSMEs in Southeast Nigeria.

Research Questions

The following question was formulated to guide the study:

i. How does exchange rate affect Return on Capital of MSMEs in Southeast Nigeria?
ii. To what extent does interest rate affect return on capital of MSMEs in Southeast Nigeria?
iii. How does exchange rate affect Return on Investment of MSMEs in Southeast Nigeria?
iv. To what extent does interest rate affect return on investment of MSMEs in Southeast Nigeria?

Hypotheses

Ho_1: Exchange rate has no significant positive effect on Return on Capital of MSMEs in Southeast Nigeria.

Ho_2: Interest rate has no significant positive effect on return on capital of MSMEs in Southeast Nigeria.

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Ho$_3$: Exchange rate has no significant positive effect on Return on Investment of MSMEs in Southeast Nigeria.
Ho$_4$: Interest rate has no significant positive effect on return in investment of MSMEs in Southeast Nigeria.

II. EMPIRICAL LITERATURE REVIEW

The following review provides a concise summary of the key findings and methodologies employed in a selection of empirical studies that investigate various aspects of monetary policy and its effects on different economic variables in Nigeria and other contexts.

Ashamu (2020) examined the impact of monetary policy on foreign trade in Nigeria from 1981 to 2017. The study utilized secondary data from the Central Bank of Nigeria's Statistical Bulletin. The analysis employed an Error Correction Model (ECM) linking Net Import to Money Supply, Interest Rate, Exchange Rate, Foreign Direct Investment, and Trade Openness. The results indicated a significant long-run causality from monetary policy activities to foreign trade. Notably, monetary policy positively influenced foreign trade, except for interest rates, which had a negative and insignificant effect.

Hammed (2020) explored the influence of monetary policy shocks on manufacturing output in Nigeria (1981-2018). Co-integration tests established long-term relationships among variables, while Structural Vector Auto-Regressive modeling analyzed shocks. Findings suggested that shocks to broad money supply positively impacted manufacturing output, while interest rate shocks negatively affected it. The research recommended focusing on broad money supply as a key monetary policy instrument for enhancing manufacturing output.

Ngbogu (2020) investigated the effects of government taxation and monetary policy on MSMEs sales revenue in Uasin Gishu County, Kenya. Using both secondary and primary data, the study found that government tax policies directly influenced MSMEs sales revenue, with varying positive or negative effects. The research concluded that lower taxes could enable MSMEs to allocate more funds to activities promoting growth and profitability.

Kwaletur (2020) studied the relationship between banking system credit to MSMEs and economic growth in Nigeria. Despite a gradual increase in credit to MSMEs over time, the contribution to overall economic growth remained limited. Total credit to the private sector showed a significant positive effect on economic growth, while credit to MSMEs did not. The study emphasized the need to enhance the role of credit to MSMEs in driving economic growth.

Osakwe, Ibenta, and Ezeabasili (2019) assessed the impact of monetary policy on Nigeria's manufacturing sector. Using an ex-post facto research design and secondary data, the study found that monetary policy tools had a significant short-term effect on manufacturing sector output. The research suggested that these tools might not be suitable for long-term growth, emphasizing the importance of using additional policies to strengthen the manufacturing sector.

Egbulonu and Ukwuoma (2018) examined the relationship between monetary policy and the growth of Nigeria's manufacturing sector from 1980 to 2016. While money supply positively and significantly influenced manufacturing output in both short and long runs, exchange rates exhibited a negative but insignificant impact. Interest rates had positive effects but were not statistically significant. The research recommended policy consistency and measures to strengthen the domestic currency and manufacturing sector.

Hillary, Imo, and Uche (2018) evaluated the industry effects of monetary policy transmission channels in Nigeria (1981-2014). The study employed co-integration and error correction models, revealing negative long-run effects of private sector credit, interest rates, and exchange rates on real output growth. The findings highlighted the importance of considering the timing and degree of these effects.

Lawrence, Odimgbe, Ezeabalisi, and Udoka (2018) investigated the impact of monetary policy on Nigeria's economic growth using various monetary policy variables. The study found that monetary policy rate, interest rate, and investment had insignificant positive effects on economic growth, while money supply had a significant positive effect. Exchange rate had a significant negative effect on GDP. The research emphasized the need for effective policy coordination to achieve sustainable growth.

Ebikila, Agada, Lucky, and Matthew (2018) studied the impact of money supply on macroeconomic variables in Nigeria from 1985 to 2016. Narrow money supply showed positive and significant impacts on inflation and per capita income. Broad money supply and exchange rate had mixed and insignificant effects on these variables. Inflation rate had an insignificant inverse impact on per capita income.

Onwuteaka, Okoye, and Molokwu (2019) examined the effect of monetary policy on economic growth in Nigeria (1980-2017). The study highlighted the importance of money supply, interest rates on credit, infrastructure, and external debt in explaining economic growth. The researchers recommended granting central banks autonomy in monetary policy decisions to enhance their effectiveness.

Shobande (2019) explored the impact of transitioning from direct to indirect monetary policy on industrial growth in Nigeria using annual time series data from 1960 to 2015. Employing the ARDL bound testing approach, the study found that domestic credit, interest rate, and trade balance positively influenced industrial output, while money supply, inflation, and exchange rate had negative effects. In the short-run, changes in previous periods' indirect monetary policy variables were negatively related to industrial output. The error correction term indicated a significant speed of adjustment towards equilibrium. The study recommended the use of both conventional and non-conventional monetary policies to enhance industrial growth.

Ojeka (2019) investigated the relationship between fiscal policy and the growth of SMEs in Nigeria using non-probability judgmental sampling and Spearman's Rank Correlation for hypothesis testing. The study found that complex tax regulations, high tax rates, lack of tax-related education, and multiple taxation posed challenges to MSMEs. A significant negative relationship between taxes and business sustainability and expansion was observed.

Ocheni (2018) analyzed the impact of tax and exchange rate policy on the performance of MSMEs in Nigeria. The study used descriptive survey research design and data from Kogi State and FCT, Abuja. Findings highlighted the significance of funds, managerial skills, government policy, education, and facilities in influencing MSME performance.

Isaac (2018) examined the effects of government taxation policy on MSMEs sales revenue in Uasin Gishu County, Kenya. Through exploratory research, the study indicated that government tax policy directly affected MSMEs sales revenue, with effects that could be positive or negative. The research suggested levying lower taxes to promote business growth and profitability.

Okotori (2019) studied the dynamics of monetary policy and inflation in Nigeria using monthly data from 2014-2017. Employing unit root tests, co-integration tests, and an Error Correction Model (ECM), the study found significant impacts of money supply, exchange rate, monetary policy rate, treasury bills rate, reserve requirement, and liquidity ratio on inflation. The study recommended the use of monetary policy tools to maintain inflation thresholds.

Oumbe' (2018) investigated the effect of monetary policy on inflation and the relationship between money supply and inflation in Cameroon. Using time series annual data from 1980 to 2016, the study employed Johansen co-integration tests and ARDL estimation techniques. Results indicated a long-run equilibrium relationship between money supply and inflation, with a significant positive impact of money supply on inflation. The study suggested controlling money supply to stabilize prices.

Islam, Ghani, Mahyudin, and Manickam (2017) explored the determinants of inflation in Malaysia using quantitative methods. The study found relationships between unemployment rate, exchange rate, money supply, and inflation.

Akinruwa, Awolusi, and Ibojo (2017) conducted a study in Ekiti State, Nigeria, using regression analysis. Findings emphasized the significance of funds, managerial skills, government policy, education, and facilities in influencing MSME performance.

Sokoto and Nwoko, Ihemeje, and Anumadu (2016) examined the effectiveness of the Central Bank of Nigeria's Monetary Policies in promoting economic growth between 1990 and 2011. The study found that monetary policy measures were effective in regulating monetary and real sector aggregates, impacting variables like employment, prices, output, and economic growth.

Ufoeze, Odimgbe, Ezeabalisi, and Alajekwu (2018) investigated the effect of monetary policy on economic growth in Nigeria using the Johansen co-integration and error correction model. Their findings indicated negative effects of private sector credit, interest rate, and exchange rate channels on real output growth.

Ayodeji and Oluwole (2018) examined the impact of monetary policy on economic growth in Nigeria using multi-variable regression analysis. The study found mixed effects of monetary policy instruments on economic growth.

Adigwe, Echekoba, and Onyeagba (2015) explored the impact of monetary policy on the Nigerian economy, finding that money supply positively impacted GDP growth but negatively impacted inflation.

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Oguda and Chinda (2017) studied commercial banks' lending activities and economic growth in Nigeria. The study found that lending behavior was significantly influenced by the country's economic support, changes in money supply, and bank size and liquidity.

Gavin (2010) investigated factors affecting banking sector interest rate spread in Kenya, highlighting the impact of capital adequacy ratio, treasury bills rate, and discount rate on interest rate spreads.

Ngugi and Kabubu (2018) examined financial sector reforms and interest rate liberalization in Kenya. The study focused on the sequencing and actions taken in the liberalization process and investigated interest rate levels, spreads, and determining factors in the context of financial performance. The study included 20 banks in Kenya and found that the financial system still exhibited repression factors, such as negative interest rates, inefficiency, and underdeveloped financial markets.

Imoughele and Ismaila (2014) employed Co-integration and Error Correction Modelling (ECM) techniques to study the impact of commercial bank credit on Nigeria's Micro Small and Medium Scale Enterprises (MSMEs) from 1986 to 2019. The study identified a long-run relationship between MSMEs and selected macroeconomic variables, revealing the significant impacts of savings time deposit and exchange rate on MSMEs output. Commercial bank credit, total government expenditure, and bank density had direct but insignificant impacts on MSMEs output, and interest rate had an adverse effect.

Okoye and Eze (2017) investigated the effect of bank lending rate on the performance of Nigerian Deposit Money Banks. The study found that the lending rate and monetary policy rate had significant and positive effects on the performance of Nigerian deposit money banks.

Oluseye (2017) examined the impact of multiple taxations on the performance of small and medium enterprises (SMEs). The study used a survey research design with a sample of 74 SMEs. It found that multiple taxation and high tax rates contributed to high rates of business fatality among MSMEs. The study recommended the development of uniform tax policies favoring MSME growth and integration of MSME survival into policy formulation.

Chukuigwe (2018) analyzed the impact of monetary and fiscal policies on non-oil exports in Nigeria from 1974 to 2003. Using Ordinary Least Squares estimation, the study found that interest rate, exchange rate, and budget deficits negatively affected non-oil exports. The study recommended strategies for macroeconomic stability, export promotion, and infrastructure fortification.

Onyeiwu (2012) studied the impact of monetary policy on the Nigerian economy using Ordinary Least Squares. The results indicated that monetary policy, represented by money supply, had a positive impact on GDP growth and balance of payments but a negative impact on the inflation rate. The study concluded that CBN's monetary policy was effective in regulating the economy's liquidity, impacting variables like output, employment, and prices.

Owalabi and Adegbite (2014) explored the impact of monetary policy on industrial growth in the Nigerian economy using multiple regression analysis. The study found significant effects of manufacturing output, treasury bills, deposit and lending, and rediscount rate on industrial growth.

Adefeso and Mobolaji (2010) investigated fiscal-monetary policy and economic growth in Nigeria using Johansen Maximum Likelihood Co-integration procedure. The study found a long-run relationship between economic growth, degree of openness, government expenditure, and broad money supply (M2).

Chukwu (2019) analyzed the effect of monetary policy innovations in Nigeria using a Structural Vector Auto-Regression (SVAR) approach. The study found that monetary policy innovations had both real and nominal effects on economic parameters, depending on the policy variable selected.

Michael and Ebibai (2014) examined the impact of monetary policy on selected macroeconomic variables such as gross domestic product, inflation, and balance of payments in Nigeria using OLS regression analysis. The study suggested that creating an investment-friendly environment in Nigeria would increase the growth rate of GDP.

Akujobi (2012) investigated the impact of monetary policy instruments on Nigeria's economic development using multiple regression technique. The study found that treasury bill, minimum rediscount rate, and liquidity rate had significant impacts on Nigeria's economic development.

III. SUMMARY OF LITERATURE REVIEW:

The reviewed literature encompasses various empirical studies focused on different aspects of monetary policy, fiscal policy, tax policies, interest rates, and their impacts on economic variables and sectors, particularly in the context of Nigeria and neighboring countries. These studies utilize various econometric techniques, including regression analysis, co-integration, and structural modeling, to examine the relationships between different policy measures and economic outcomes. Several studies emphasize the effects of policy changes on variables like GDP growth, inflation, interest rates, industrial output, MSMEs' performance, non-oil exports, and more.

Some studies highlight the complex nature of these relationships, indicating that the impact of certain policy measures may vary based on the selected variables and contexts. For instance, some studies find positive effects of monetary policy variables (such as money supply and monetary policy rate) on economic growth, while others suggest that these variables may have both positive and negative impacts, depending on the context. Similarly, fiscal policy variables, such as government expenditure, are shown to influence economic growth, but the direction and magnitude of these effects may vary.

Taxation policies and their impact on MSMEs' performance are another key focus, revealing challenges such as multiple taxation, high tax rates, and lack of tax education. Studies emphasize the need for policy reforms to create a favorable environment for MSMEs' growth by addressing these issues.

Theoretical Framework: Theory of Business Growth

The present study is grounded in the Theory of Business Growth, which draws upon various theoretical perspectives to explore the dynamics of business growth. Different authors have proposed theories that offer insights into the factors influencing the growth of businesses. Among these, Gibrat's law of proportionate effect (LPE) formulated by Gibrat in 1931 stands as one of the earliest and most widely used theories in this domain. Gibrat's law posits that the rate of growth of a firm is unrelated to its initial size. In this context, the implication is that larger firms are considered advantageous in terms of private sector development due to their potential for generating more employment compared to smaller firms.

In contrast, Jovanovic's learning model (1982) suggests that younger firms accumulate knowledge over time, leading to enhanced performance as they acquire market experience. According to this model, younger firms experience faster growth rates compared to older ones. Given that younger firms often begin as smaller entities for the reasons outlined earlier, Jovanovic's model concludes that small firms have a propensity to grow faster than larger ones. This concept of convergence posits that, over time, small firms will gradually reach the size of any larger firm within a given sector.

Church and Lewis (1983), as cited in Olawale &Garire (2010), introduced the idea that as a small firm commences and progresses, it undergoes distinct growth stages each characterized by its unique attributes. These stages include existence, survival, success, take-off, and resource maturity. In each developmental stage, a different set of factors becomes crucial for the firm's survival and advancement. The Churchill Lewis model contributes valuable insights into the growth trajectory of MSMEs by highlighting their distinguishing features, challenges, and requirements at various stages. This model offers an explanation of the growth process within the realm of MSMEs.

It's important to note that while various theories provide valuable perspectives on business growth, the exact moment when a startup evolves into a full-fledged business has not been definitively determined in theory. However, the concept of business survival aligns with the transition to an organization that has successfully progressed to stage two within the five-stage model of small business growth. This theoretical framework underscores the intricate nature of business growth and its multifaceted determinants.

Gap in Literature

From the empirical review above, all the empirical studies reviewed focused on either the relationship between fiscal policy and fiscal policy variables and manufacturing, monetary policy and economic development in different countries. None of these studies focus on the effect of monetary policy on the performance of MSMEs in Southeast states in Nigeria. This study intends to fill this vacuum.

IV. METHODOLOGY

The study adopted a multi-stage sampling technique; the first stage employed the stratified sampling method. This involved grouping the MSMEs according to their location. The five states of South East geopolitical zone which are Anambra, Imo, Enugu, Ebonyi and Abia state were selected for this study purposively since many MSMEs operate in these states. The second stage involved the use of proportional sampling technique, and lastly the third stage involved the

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use of simple random sampling method to pick the respondents from each state.

Quantitative data collected using a questionnaire was analyzed by the use of descriptive statistics using the Statistical Package for Social Sciences (SPSS) and presented through percentages, means, standard deviations and frequencies. The hypothesis formulated to guide the study was tested using Pearson's correlation Coefficient.

V. DATA PRESENTATION AND ANALYSIS

This section encompasses the presentation and analysis of the data gathered during the course of the study. Out of the 395 questionnaires that were distributed, 343 were accurately completed and returned, constituting 87 percent of the total respondents.

Primary Research Focus

The data collected from the second section of the questionnaire were meticulously examined in alignment with the research inquiries and the formulated hypotheses. The findings are displayed in tables 4.2.1, 4.2.2, 4.2.3, and 4.2.4 below. A benchmark mean value of 3.0 was utilized to assess the means of items within the respective sections. Consequently, any item within the instrument with a mean equal to or surpassing 3.0 should be interpreted as 'agreement,' whereas items with a mean below 3.0 should be regarded as 'disagreement.'

4.2.1 Objective One: Ascertain the effect of exchange rate on Return on Capital of MSMEs in Southeast Nigeria.

Table 4.2.1 Distribution of respondents on the effect of exchange rate on Return on Capital of MSMEs in Southeast Nigeria.

	Item	1	2	3	4	5	N	$\bar{X}$	Standard Deviation
S/N		SD	D	UD	A	SA			
1	The floating exchange rate has a significant positive effect on the return on capital of MSMEs in South East, Nigeria	18.6% 64	39.0% 134	4.2% 14	24.6% 84	13.6% 47	343	2.7542	1.37086
2	The fluctuation in the exchanges rate affects the pace of economic activities among MSMEs	4.2% 14	25.4% 87	6.8% 24	44.9% 154	18.7% 64	343	3.4831	1.18201
3	The fluctuation of exchange rate affects the cost of importation of raw material and goods	9.4% 32	46.2% 159	5.1% 17	35.0% 120	4.3% 15	343	2.7863	1.15093
4	High cost of importation as a result of exchange rate affects return on capital of MSMEs	6.8% 23	5.9% 20	4.2% 14	60.2% 207	22.9% 79	343	3.8644	1.05341
5	Increase in Naira-dollar exchange rate contributes to the continuous increase in price of goods and services	6.8% 23	15.3% 53	15.3% 53	43.2% 148	19.4% 67	343	3.19	1.269

6	Fluctuation in exchange rate affect MSMEs ability to efficiently utilize its capital	6.0% 21	9.4% 32	10.3% 35	62.4% 214	12.0% 41	343	3.61	1.062
7	Instability of Naira to dollars affects the profitability of MSMEs	6.8% 23	11.9% 41	4.2% 14	66.1% 227	11.0% 41	343	3.87	0.833
8	Exchange rate affects how efficiently the MSMEs uses its capital to generate profits	2.5% 9	5.1% 18	11.0% 38	65.3% 224	16.1% 55	343	4.08	0.564
9	The Fluctuation in exchange rate limits the ability of investors to determine whether a particular MSME is suitable to invest or not	5.1% 17	13.6% 47	5.1% 17	63.5% 218	12.7% 44	343	3.65	1.033

Source: Field Survey, (2022)

Table 4.2.1 presented the distribution of responses regarding the impact of floating exchange rates on the return on capital of MSMEs in the South East of Nigeria. Within this context, 18.6% of respondents strongly disagreed, 13.6% disagreed, 4.2% were undecided, 24.6% agreed, and 39.0% strongly agreed. This distribution signifies that there is a significant positive effect of floating exchange rates on the return on capital of MSMEs in the South East region.

When examining the influence of exchange rate fluctuations on the pace of economic activities among MSMEs, the distribution of responses was as follows: 4.2% strongly disagreed, 25.4% disagreed, 6.8% were undecided, 44.9% agreed, and 18.6% strongly agreed. These findings indicate that fluctuations in exchange rates indeed affect the pace of economic activities among MSMEs.

Regarding the impact of exchange rate fluctuations on the cost of importing raw materials and goods, the responses were distributed as follows: 55% of respondents strongly disagreed, while 45.8% disagreed. Additionally, 5.1% were undecided, 35.0% agreed, and 5.1% strongly agreed. These results suggest that a majority of respondents hold the belief that fluctuations in exchange rates impact the cost of importing raw materials and goods.

Participants were also queried about the connection between the high cost of imports due to exchange rate fluctuations and its effect on the return on capital of MSMEs. Among them, 6.8% strongly disagreed, 5.9% disagreed, 4.2% were undecided, 60.2% agreed, and 22.9% strongly agreed. This implies that the high cost of imports as a result of exchange rate fluctuations does indeed affect the return on capital of MSMEs.

Furthermore, in the context of the Naira-Dollar exchange rate, its contribution to the continuous rise in the price of goods and services was explored. The distribution of responses indicated: 6.8% strongly disagreed, 11.9% disagreed, 4.2% were undecided, 66.1% agreed, and 11.0% strongly agreed. These findings underscore that the increase in the Naira-Dollar exchange rate contributes to the ongoing escalation of goods and services prices.

The survey also probed whether exchange rate fluctuations impact the ability of MSMEs to efficiently utilize their capital. Among the respondents, 6.0% strongly disagreed, 9.4% disagreed, 10.3% were undecided, 62.4% agreed, and 12.0% strongly agreed. This suggests that exchange rate fluctuations do affect the ability of MSMEs to efficiently utilize their capital.

Considering the instability of the Naira-Dollar exchange rate and its effect on the profitability of MSMEs, the distribution of responses was as follows: 6.8% strongly disagreed, 11.9% disagreed, 4.2% were undecided, 66.1% agreed, and 11.0% strongly agreed. These outcomes reveal that a significant portion of respondents agreed that the instability of the Naira-Dollar exchange rate does indeed impact the profitability of MSMEs.

Regarding the relationship between exchange rates and the efficiency of MSMEs in generating profits from their capital, the responses were distributed as follows: 2.5% strongly disagreed, 5.1% disagreed, 11.0% were undecided, 65.3% agreed, and 16.1% strongly agreed. This indicates that exchange rates affect how efficiently MSMEs utilize their capital to generate profits.

Lastly, the influence of exchange rate fluctuations on investors' ability to assess the suitability of investing in a particular MSME was explored. The distribution of responses revealed: 5.1% strongly disagreed, 13.6% disagreed, 5.1% were undecided, 63.5% agreed, and 12.7% strongly agreed. This suggests that fluctuations in exchange rates do limit investors' ability to determine the suitability of investing in specific MSMEs.

Overall, the responses from the participants shed light on various aspects of the impact of exchange rate fluctuations on MSMEs in the South East region of Nigeria.

4.2.2 Objective Two: Assess the effect of interest rate on return on capital of MSMEs in Southeast Nigeria.

Table 4.2.2: Distribution of respondents on the effect of interest rate on return on capital of MSMEs in Southeast Nigeria.

	Item	1	2	3	4	5	N	$\bar{X}$	Standard Deviation
S/N		SD	D	UD	A	SA			
1	High interest rate affects the profitability of MSMEs in South East, Nigeria	6.8% 23	16.2% 56	34.7% 119	41.5% 142	0.8%	343	3.71	0.725
2	High interest rate limit MSMEs ability to repay debt or loan	0.9% 3	5.3% 18	23.7% 81	62.3% 214	7.9% 27	343	4.10	0.749
3	High unstable interest rate affects MSMEs ability to efficiently utilize its capital (debt and Equity)	2.5% 9	7.6% 26	5.9% 20	68.5% 235	22.9% 79	343	3.94	0.920
4	There is a significant relationship between interest rate and MSMEs return on capital	4.5% 15	12.6% 43	9.0% 31	60.4% 207	13.5% 46	343	3.50	1.416
5	High interest rate from commercial banks has a negative impact on the MSMEs financial performance	20.2% 69	4.4% 15	2.6% 9	50.9% 175	21.9% 75	343	4.37	0.729
6	The instability in the interest rate have affected the survival of most MSMEs	1.7% 6	9.3% 32	4.2% 14	46.6% 160	35.6% 122	343	4.08	0.975

7	The high interest rate has affected MSMEs and entrepreneurs' confidence	0.9% 3	1.8% 6	3.5% 12	83.2% 285	10.6% 36	343	4.01	0.543
8	Interest rate on MSMEs lending result to MSMEs low return on capital employed	2.5% 9	5.9% 20	6.8% 23	70.3% 241	10.2% 35	343	4.20	0.662

Source: Survey, 2022

Table 4.2.2 showcased the viewpoints of respondents concerning the impact of high interest rates on the profitability of MSMEs in the South East region of Nigeria. Within this context, 6.8% of respondents strongly disagreed, 16.2% disagreed, 34.7% were undecided, 41.5% agreed, and 0.8% strongly agreed. This distribution indicates that high interest rates indeed affect the profitability of MSMEs in this region.

Examining whether high interest rates limit the ability of MSMEs to repay debt or loans, the distribution of responses was as follows: 0.9% strongly disagreed, 5.3% disagreed, 23.7% were undecided, 62.3% agreed, and 7.9% strongly agreed. This implies that high interest rates do limit the ability of MSMEs to repay debt or loans.

The opinions gathered regarding whether the instability of high interest rates affects the ability of MSMEs to efficiently utilize their capital (both debt and equity) were as follows: 2.5% strongly disagreed, 7.6% disagreed, 5.9% were undecided, 68.5% agreed, and 22.9% strongly agreed. This signifies that high and unstable interest rates do indeed impact the efficiency of MSMEs in utilizing their capital.

Furthermore, on the question of whether a significant relationship exists between interest rates and the return on capital of MSMEs, the responses were distributed as follows: 4.5% strongly disagreed, 12.6% disagreed, 9.0% were undecided, 60.4% agreed, and 13.5% strongly agreed. This suggests that there is indeed a significant relationship between interest rates and the return on capital of MSMEs.

Inquiring into the impact of high interest rates from commercial banks on the financial performance of MSMEs, the distribution of responses was as follows: 20.2% strongly disagreed, 4.4% disagreed, 2.6% were undecided, 50.9% agreed, and 21.9% strongly agreed. This implies that high interest rates from commercial banks do indeed negatively impact the financial performance of MSMEs.

Participants were also asked about whether the instability in interest rates has affected the survival of most MSMEs. The distribution of responses indicated: 1.7% strongly disagreed, 9.3% disagreed, 4.2% were undecided, 46.6% agreed, and 35.6% strongly agreed. These outcomes suggest that the instability in interest rates has indeed affected the survival of most MSMEs.

Furthermore, the impact of high interest rates on the confidence of MSMEs and entrepreneurs was explored. The distribution of responses revealed: 0.9% strongly disagreed, 1.8% disagreed, 3.5% were undecided, 83.2% agreed, and 10.6% strongly agreed. These statistics indicate that high interest rates have significantly affected the confidence of MSMEs and entrepreneurs.

Finally, participants were queried about whether the interest rates on MSMEs' lending contribute to their low return on capital employed. The distribution of responses indicated: 2.5% strongly disagreed, 5.9% disagreed, 6.8% were undecided, 70.3% agreed, and 10.2% strongly agreed. These results suggest that the interest rates on MSMEs' lending do indeed result in their low return on capital employed.

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4.2.3 Objective Three: To ascertain the effect of exchange rate on Return on Investment of MSMEs in Southeast Nigeria.

Table 4.2.3: Distribution of respondents on the effect of exchange rate on Return on Investment of MSMEs in Southeast Nigeria.

	Item	1	2	3	4	5		$\bar{X}$	Standard Deviation
S/N		SD	D	UD	A	SA	N		
1	Fluctuation on exchange rate limits MSMEs return on investment	1.7% 6	1.7% 6	3.5% 12	53.0% 182	40.0% 137	343	4.28	0.767
2	Continuous increase in exchange rate has a significant negative influence on MSMEs cost of investment and the returns generated	6.0% 21	10.3% 35	11.2% 38	44.0% 150	28.4% 97	343	3.78	1.148
3	Increase in Dollar – Naira exchange rate has affected the repayment of investment from creditors and shareholders	13.2% 45	14.2% 49	11.5% 39	60.2% 206	0.9% 3	343	3.21	1.130
4	Fluctuation on exchange rate has limited the growth of MSMEs in the zone	0.9% 3	1.8% 6	2.6% 9	53.5% 184	41.2% 141	343	4.32	0.698
5	Fluctuating dollar rate has a significant effect on the survival of MSMEs in the zone	6.8% 23	8.5% 29	5.1% 18	46.6% 160	29.7% 102	343	3.87	1.156
6	Fluctuation on exchange rate contributes to continuous rise in price of goods and services	5.9% 20	9.3% 32	6.8% 23	44.9% 154	28.8% 99	343	3.85	1.143
7	Fluctuation on exchange rate is the major cause of inflation in the country	5.1% 17	20.3% 70	6.8% 23	39.8% 137	25.4% 87	343	3.62	1.1225
8	Instability in the exchange rate have negatively affected economic development in Nigeria	1.7% 6	0.9% 3	2.6% 9	48.7% 167	46.2% 158	343	4.37	0.738

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9	Continuous increase in Dollar – Naira exchange rate have reduced the financial strength of many MSMEs	17.1% 59	15.0% 51	8.5% 29	29.9% 103	2.4% 8	343	3.62	1.1227

Source: Field Survey, 2022

Table 4.2.3 depicted the perspectives of respondents regarding the impact of exchange rate fluctuations on various aspects of MSMEs. When examining whether fluctuations in exchange rates limit the return on investment for MSMEs, the distribution of responses was as follows: 1.7% strongly disagreed, 1.7% disagreed, 3.5% were undecided, 53.0% agreed, and 40.0% strongly agreed. This indicates that fluctuations in exchange rates do limit the return on investment for MSMEs.

Respondents were questioned about the influence of continuous increases in exchange rates on the cost of investment and returns generated by MSMEs. The distribution of responses showed: 6.0% strongly disagreed, 10.3% disagreed, 11.2% were undecided, 44.0% agreed, and 28.4% strongly agreed. This suggests that continuous increases in exchange rates indeed have a significant negative influence on the cost of investment and the returns generated by MSMEs.

Inquiring about the effect of an increase in Dollar-Naira exchange rates on the repayment of investment from creditors and shareholders, the distribution of responses was: 13.2% strongly disagreed, 14.2% disagreed, 11.5% were undecided, 0.9% agreed, and 28.4% strongly agreed. This implies that an increase in Dollar-Naira exchange rates has indeed affected the repayment of investment from creditors and shareholders.

Respondents were further asked about whether exchange rate fluctuations have limited the growth of MSMEs in the zone. The distribution of responses indicated: 0.9% strongly disagreed, 1.8% disagreed, 2.6% were undecided, 53.5% disagreed, and 41.2% strongly disagreed. Similarly, in response to whether fluctuating dollar rates have a significant effect on the survival of MSMEs in the zone, the distribution was: 6.8% strongly disagreed, 8.5% disagreed, 5.1% were undecided, 46.6% agreed, and 29.7% strongly agreed.

The impact of exchange rate fluctuations on the continuous rise in the prices of goods and services was also explored. The distribution of responses indicated: 5.9% strongly disagreed, 9.3% disagreed, 6.8% were undecided, 44.9% disagreed, and 28.8% strongly disagreed. This suggests that fluctuations in exchange rates indeed contribute to the continuous rise in the prices of goods and services.

Participants were then asked about whether exchange rate fluctuations are the major cause of inflation in the country. The distribution of responses was: 5.1% strongly disagreed, 20.3% disagreed, 6.8% were undecided, 39.8% agreed, and 25.4% strongly agreed. This implies that a considerable number of participants view exchange rate fluctuations as the major cause of inflation in the country.

Lastly, respondents were queried on whether the instability in exchange rates has negatively affected economic development in Nigeria. The distribution of responses revealed: 1.7% strongly disagreed, 0.9% disagreed, 2.6% were undecided, 48.7% agreed, and 46.2% strongly agreed. Similarly, in response to whether the continuous increase in Dollar-Naira exchange rates has reduced the financial strength of many SMEs, the distribution was: 17.1% strongly disagreed, 35.0% disagreed, 8.5% were undecided, 29.9% agreed, and 9.4% strongly agreed. This suggests that the continuous increase in Dollar-Naira exchange rates has indeed reduced the financial strength of many SMEs and has negatively affected economic development in Nigeria.

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4.2.4 Objective Four: Assess the effect of interest rate on return in investment of MSMEs in Southeast Nigeria.

Table 4.2.4: Distribution of respondents on the effect of interest rate on return in investment of MSMEs in Southeast Nigeria.

	Item	1	2	3	4	5		$\bar{X}$	Standard Deviation
S/N		SD	D	UD	A	SA	N		
1	The recent increase of interest rate from 11.5% to 13% by CBN has increase the cost of borrowing for MSMEs.	17.1% 59	35.0% 120	8.5% 29	29.9% 103	9.5% 33	343	2.79	1.297
2	The hike on the interest rate have reduced MSMEs investment strength	7.1% 24	35.0% 120	7.7% 26	29.9% 103	20.3% 70	343	3.95	1.070
3	The high interest rate has reduced the MSMEs demand for loan/money which have limited their expansion rates	5.9% 20	11.0% 38	8.5% 29	44.9% 154	28.0% 96	343	3.79	1.154
4	The CBN increase on interest rate have no significant impact on the survival of MSMEs	9.6% 33	20.0% 69	3.5% 12	59.1% 203	7.8% 27	343	3.36	1.171
5	The interest rate increase does not have significant effect on most low-income MSMEs	8.8% 30	25.7% 88	8.0% 27	40.7% 140	16.8% 58	343	3.31	1.268
6	High interest rate has a significant negative impact on the profitability of MSMEs	6.0% 21	17.2% 59	11.2% 38	54.4% 187	11.2% 38	343	3.47	1.091

Source: field Survey, 2022

Respondent opinions were collected regarding the recent increase in the interest rate from 11.5% to 13% by the Central Bank of Nigeria (CBN) and its impact. The distribution of responses indicated: 17.1% strongly disagreed, 35.0% disagreed, 8.5% were undecided, 29.9% agreed, and 9.5% strongly agreed. This suggests that the recent interest rate hike has indeed increased the cost of borrowing for MSMEs.

Respondents were asked whether this interest rate hike has reduced the investment strength of MSMEs. The distribution of responses showed: 7.1% strongly disagreed, 35.0% disagreed, 7.7% were undecided, 29.9% agreed, and 20.3% strongly agreed. This implies that the interest rate hike has indeed diminished the investment strength of SMEs.

Opinions were sought on whether the high interest rate has led to a decreased demand for loans/money among MSMEs, thereby limiting their expansion rates. The distribution of responses indicated: 5.9% strongly disagreed, 11.0% disagreed, 8.5% were undecided, 44.9% agreed, and 28.0% strongly agreed. This suggests that the high interest rate has indeed reduced the demand for loans/money among MSMEs, leading to limitations on their expansion rates.

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Views were also collected on whether the CBN's increase in interest rates has no significant impact on the survival of MSMEs. The distribution of responses showed: 9.6% strongly disagreed, 20.0% disagreed, 3.5% were undecided, 59.1% agreed, and 7.8% strongly agreed. This reveals a strong sentiment that the CBN's interest rate increase has no significant impact on the survival of MSMEs.

Regarding the effect of the interest rate increase on most low-income MSMEs, respondents expressed their opinions. The distribution of responses revealed: 8.8% strongly disagreed, 25.7% disagreed, 8.0% were undecided, 40.7% agreed, and 3.31% strongly agreed. These responses suggest that the interest rate increase does not have a significant effect on most low-income MSMEs.

Lastly, respondents' perceptions were captured on whether a high interest rate has a significant negative impact on the profitability of MSMEs. The distribution of responses indicated: 6.0% strongly disagreed, 17.2% disagreed, 11.2% were undecided, 54.3% agreed, and 11.2% strongly agreed. This implies that a high interest rate indeed exerts a significant negative impact on the profitability of MSMEs.

Testing Hypothesis Two

Ho2: Interest rate has no significant positive effect on return on capital of MSMEs in Southeast Nigeria.

Pearson's correlation coefficient was computed to assess hypothesis two.

The study's findings identify a strong correlation (r=0.819) between Interest rate and return on capital. These results were statistically significant at the ($P < 0.05$) level. Thus, the hypothesis that asserts "Interest rate has a significant positive effect on return on capital of MSMEs in Southeast Nigeria" was accepted. This indicates that Interest rate has a notable influence of 81.9% on return on capital. The implication of these findings is that Interest rate has a significant causal effect on return on capital. Consequently, an enhancement in Interest rate leads to a significant positive change in return on capital.

Testing Hypothesis Three

Ho3: Exchange rate has no significant positive effect on Return on Investment of MSMEs in Southeast Nigeria.

In evaluating this hypothesis, the Pearson's correlation coefficient (r) method was employed to gauge the degree of relationship indicated by (r).

TEST OF HYPOTHESES

To examine the hypotheses, the study employed the Pearson's correlation coefficient (r) method to assess the degree of relationship indicated by (r). A significance level of 0.05 was chosen for the study.

Decision Rule: If the p-value is less than the significance level (α=0.05), reject the null hypothesis.

Testing Hypothesis One

Ho1: Exchange rate has no significant positive effect on Return on Capital of MSMEs in Southeast Nigeria.

The results of the Pearson's correlation coefficient for hypothesis one are presented below.

The study's findings reveal a weak but positive correlation of 0.246 between Exchange Rate and Return on Capital. These findings were statistically significant at the ($P < 0.05$) level. Therefore, the alternative hypothesis, which posited that Exchange rate has a significant positive effect on Return on Capital of MSMEs in Southeast Nigeria, was accepted.

The study's findings present a weak but positive correlation of 0.246 between Exchange Rate and Return on Investment. These findings were statistically significant at the ($P < 0.05$) level. Thus, the alternative hypothesis, which suggests that Exchange rate has a significant positive effect on Return on Investment of MSMEs in Southeast Nigeria, was accepted.

Testing Hypothesis Four

Ho4: Interest rate has no significant positive effect on return on investment of MSMEs in Southeast Nigeria.

Pearson's correlation coefficient was calculated to validate hypothesis four.

The study's results identify a strong correlation (r=0.819) between Interest rate and Return on Investment. These findings were statistically significant at the ($P < 0.05$) level. Therefore, the hypothesis asserting that "Interest rate has a significant positive effect on Return on Investment of MSMEs in Southeast Nigeria" was accepted. This implies that Interest rate has a considerable influence of 81.9% on Return on Investment. The implication of these findings is that Interest rate has a significant causal effect on Return on Investment. Thus, an improvement in

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Interest rate leads to a noteworthy positive change in Return on Investment.

VI. MAJOR OF FINDING AND RECOMMENDATION

Major of Findings

The study revealed the following findings;

1. Exchange rate has a significant positive effect on Return on Capital of MSMEs in Southeast Nigeria.
2. Interest rate has a significant positive effect on return on capital of MSMEs in Southeast Nigeria.
3. Exchange rate has a significant positive effect on Return on Investment of MSMEs in Southeast Nigeria.
4. Interest rate has a significant positive effect on return in investment of MSMEs in Southeast Nigeria.

Recommendations

The following recommendations are proposed as remedies based on the findings of the study:

1. **Monetary Policy Review:** In a broader sense, it is advisable for the Federal government to conduct a comprehensive review of its monetary policies in collaboration with the Central Bank. This review should involve the assessment and adjustment of monetary instruments to foster the growth of Micro, Small, and Medium Enterprises (MSMEs) across Nigeria.
2. **Stability in Exchange Rate Management:** It is crucial to allow a consistent and reasonable period for the implementation of changes in exchange rate management strategies. Frequent shifts in strategies can have adverse effects on the exchange rate and significantly impact sectors dependent on foreign inputs. Therefore, a stable and well-considered approach to managing exchange rates is recommended.
3. **Monitoring of Commercial Banks:** The monetary authority, specifically the Central Bank of Nigeria, should actively monitor and address unethical practices exhibited by certain commercial banks that contribute to excessive fluctuations in the exchange rate. Implementing stricter punitive measures against these banks is necessary to curb such destabilizing behaviors.
4. **Uniform and MSME-Friendly Interest Rates:** The Central Bank of Nigeria should introduce a standardized, moderate, and MSME-friendly interest rate framework across all banks in the country. This initiative aims to further enhance the performance and survival of MSMEs, especially during the post-COVID-19 pandemic period. Such a consistent interest rate policy would provide stability and support for MSMEs in their financial operations.

By implementing these recommended measures, Nigeria's MSME sector can experience improved growth, stability, and resilience, ultimately contributing to the overall economic development of the country.

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