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Exchange Rate and SMEs Development in Delta State

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Abstract
The research scrutinized the effects of exchange rate on economic growth in Nigeria. The study adopted survey research design. Target population comprised 2388SMEs in the three Senatorial districts in Delta State. Purposive sampling technique was adopted in selecting the SMEs and sample size of 477 was generated through Krejcie and Morgan formula (1970). Structured questionnaire was adopted, validated and used for data collection. Cronbach's Alpha coefficients for the constructs ranged from 0.867 to 0.936. The response rate was 73%. Data were analyzed using descriptive and inferential (Linear regression) statistics. Findings of the study revealed: exchange rate has positive significant effect on SMEs development in Delta State((F = 481.482, (R) = .763, (R^2) =.582., p value = .000<0.5. The result from the study revealed that exchange rate has a significant effect on SMEs development. It is recommended that the monetary authority should ensure stability in exchange rate for accelerated SMEs development.Also, lending rates in Nigeria should be made flexible while other means should be employed towards raising the value of the naira, as this will reduce greatly the inflation rate in the country.

KEYWORDS*: Exchange Rate Volatility, Developmental Growth, SMEs*
Word count*: 179*

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I. Introduction

Small and Medium Enterprises (SMEs) have been described as the backbone of virtually all economies of the world because they have strong influence on the sustainable development process of less developed as much as developed countries and they also foster economic growth, alleviate poverty, create employment and provide personalized services(Obokoh, 2018; Wattanapruttipaisan, 2013; Ayyagari,Beck and Demirguc-Kunt, 2013). Obokoh, (2018) stated that the development of SMEs is an essential element in the growth strategy of most economies and holds particular significance for developing countries like Nigeria.

Nigeria exchange rate has had a chequered history. For over four decades, there has been inconsistence in Nigeria's exchange rate policies and lack of continuity in the exchange rate policy has worsened the unstable nature of naira rate (Adeniran, Yusuf &Adeyemi 2014, Gbosi 2005, Anigbogu, Okoye, Anyanwu and okoli (2014) state that exchange rate management in Nigeria has evolved through variousregimes.During the first decade of independence and for the early years of 1970s, the IMF modified fixed exchange rate was adopted. After its collapse, the country moved to the adjustable peg regime, which pegged the naira to series of international currencies (1973-85). The flexible and managed floatunder SAP in 1986. The exchange rate was left to float freely and determined by market forces with the monetary authorities intervening intermittently in the FOREX market to ensure stability of the rate. The country returned back to a fixed regime from 1994 to 1998, where the naira was fixed at N21 to a dollar. The democratic dispensation of 1999 re-ushered the flexible and managed float regime and has remained the system till present.

II. Literature Review and Theoretical Framework

According to Adeniran et al (2014), exchange rate is the price of one country's currency expressed in terms of some other currency. It determines the relative prices of domestic and foreign goods, as well as the strength of external sector participation in the international trade. The exchange rate according to Jongbo (2014) is therefore an important relative price as it has influences on the external competitiveness of domestic goods. Thus, exchange rate has received considerable attention in terms of its influence on investment and economic growth. Extant literature averred that in Nigeria, exchange rate has changed within the time frame from regulated to deregulated regimes. It was further stated that the exchange rate of the naira was relatively stable between 1973 and 1979during the oil boom era and when agricultural products accounted for more than 70% of the nation's gross domestic products (GDP). In 1986 when the Federal Government adopted the Structural Adjustment Programme (SAP), the country moved from a peg regime to a flexible exchange rate regime where exchange rate is left completely to be determined by market forces but today the prevailing system is the

managed float whereby monetary authorities intervene periodically in the foreign exchange market in order to attain some strategic objectives (Adeniran et al, 2014; Ewa, 2011; Mordi,2006; Gbosi, 2005). This inconsistency in policies and lack of continuity in exchange rate policies has aggravated the unstable nature of the naira rate (Adeniran et al, 2014; Gbosi, 2005).

Aliyu (2011) asserted that appreciation of exchange rate results in increased imports and reduced export while depreciation would expand export and discourage import. Also, depreciation of exchange rate tends to cause a shift from foreign goods to domestic goods. Hence, it leads to diversion of income from importing countries to countries exporting through a shift in terms of trade, and this tends to have impact on the exporting and importing countries' economic growth.

In the same vein, Hossain (2002) agreed that exchange rate helps to connect the price systems of two different countries by making it possible for international trade and also effects on the volume of imports and exports, as well as country's balance of payments position. Rogoffs and Reinhartl (2004) also opined that developing countries are relatively better off in the choice of flexible exchange rate regimes. More so, Small and medium-Enterprise (SMEs) play a critical part in the economic, modern and social advancement of a nation. It assumes a vital part in the worldwide economy through its critical commitment to the GDP and enhancing the general population's standard of living.

Generally, the advanced nations possess 90% of enterprises in SMEs part and one of the Significant reasons for financial development. The modern part of SMEs assumes an indispensable part in the worldwide economy through fare of household items to different nations. As per the United States International Trade Commission (2012) that American economy is additionally considering the presence of SMEs, which contributes half to 70% in the GDP of the nation through work creation and self-reliance. SMEs are considered as a vital method for work creation and destitution lessening in the developed nations. The presence of SMEs brings the successful usage of nearby assets and lifts up the economies everywhere throughout the world.

SMEs assume an indispensable part in developing the economies through import and fare of merchandise, which prompts worldwide economic success. As indicated by Rohra and Panhwar (2009), a large portion of the high-income nations yield the significance of SME segment in helping their economies. SMEs assume an distinctive part in the advancement, as it has been a wellspring of work creation and wage era. These contribute in the improvement of a country in keeping up the standard of life by expanding the salary of the general population. SMEs have a noteworthy commitment in the advancement and competitiveness of the economy (Dar, Ahmed, &Raziq, 2017).

Sullivan and Sheffrin (2003) define human capital as the stock of competences, knowledge and personality attributes embodied in the ability to perform labor so as to produce economic value. Human capital represents the investment people make in themselves or by their organizations that enhance their economic productivity. Human Capital theory was proposed by Schultz (1961) and developed extensively by Becker (1964). Schultz (1961) in an article entitled "Investment in Human Capital" introduces his theory of Human Capital. Schultz argues that both knowledge and skill are a form of capital, and that this capital is a product of deliberate investment.

The SME Financing Data Initiative (2009) examines the role of experience in SME growth using the Managerial Capacity Index (MCI). The MCI presents a composite measure of managerial experience and activity. The study finds that a high score in the managerial capacity index is positively associated with both strategic planning practices and high firm performance and growth. Lefebvre and Lefebvre (2002) report that innovative and managerial capabilities of the management team are strongly associated with ex- port performance and firm growth. Martin and Staines (2008) find that lack of managerial experience, skills and personal qualities as well as other factors such as adverse economic conditions, poorly thought out business plans and resource starvation are found as the main reasons why new firms fail. The distinguishing feature of high growth and low growth small firms is the education, training and experience of senior managers. Lyles et al. (2004) evaluate managerial competencies as measured by the education of the founder, managerial experience, entrepreneurial experience, start-up experience and functional area experience versus new venture performance.

The results show that relative profits tend to be high when an entrepreneur has more education and experience in the line of business. On the other hand, profitability tends to be low when the entrepreneur has only start up and managerial experience, but lacks an educational background. The results confirm the importance of education to new venture success. Bosma et al. (2004) also find that the endowed level of talent of a small business founder is not the unique determinant of performance. Rather, investment in industry-specific and entrepreneurship- specific human capital contributes significantly to the performance of small firm founders. The result shows that human capital appears to influence the entire set of performance measures (profitability, employment and survival). Former experience of the business founder in the industry in which he starts his business appears to improve all performance measures.

Empirical evidence showed that real exchange rate variations can affect growth outcomes. Edwards and Levy Yeyati (2003) found evidence that countries with more flexible exchange rate grow faster. Faster economic growth is significantly associated with real exchange rate depreciation (Hausmann, Pritchett, and Rodrik 2005). Rodrik (2009) argued that real undervaluation promotes economic growth, increases the profitability of the tradable sector, and leads to an expansion of the share of tradable in domestic value added. He claims that the tradable sector in developing countries can be too small because it suffers more than the non-tradable sector from institutional weaknesses and market failures. A real exchange rate undervaluation works as a second-best policy to compensate for the negative effects of these distortions by enhancing the sector's profitability. Higher profitability promotes investment in the tradable sector, which then expands, and promotes economic growth.

Asher (2012) examined the impact of exchange rate fluctuation on the Nigeria economic growth for period of 1980 – 2010. The result showed that real exchange rate has a positive effect on the economic growth. In a similar study, Akpan (2008) investigated foreign exchange market and economic growth in an emerging petroleum-based economy from 1970-2003 in Nigeria. He found that positive relationship exists between exchange rate and economic growth. Obansa, Okoroafor, Aluko and Millicent (2013) also examined the relationship between exchange rate and economic growth in Nigeria between 1970 and 2010. The result indicated that exchange rate has a strong impact on economic growth. They concluded that exchange rate liberalization was good to Nigerian economy as it promotes economic growth. Azeez, Kolapo and Ajayi (2012) also investigated the effect of exchange rate volatility on macroeconomic performance in Nigeria from 1986 – 2010. They discovered that exchange rate is positive related to Gross Domestic Product.

Adebiyi and Dauda (2009) using error correction model argued on the contrary that trade liberalization promoted growth in the Nigerian industrial sector and stabilized the exchange rate market between 1970 and 2006. To them, there was a positive and significant relationship between index of industrial production and real export. A one per cent rise in real export increases the index of industrial production by 12.2 per cent. By implication, it means that the policy of deregulation impacted positively on export through exchange rate depreciation.

However, past studies also showed that exchange rate has no significant effect on economic growth performance. For example, Bosworth, Collins, and Yuchin (1995) provided evidence that in a large sample of industrial and developing countries, real exchange rate volatility hampers economic growth and reduces productivity growth. Ubok-udom (1999) examined the issues surrounding the implementation of SAP in Nigeria, and drew up a conclusion that the peculiar features of Nigerian economy reduced the efficacy of currency depreciation in producing desirable effects. From the study of the relationship between exchange rate variation and growth of the domestic output in Nigeria (1971-1995); he expressed growth of domestic output as a linear function of variations in the average nominal exchange rate. He further used dummy variables to capture the periods of currency depreciation. The empirical result showed that all coefficients of the major explanatory variables have negative signs. David, Umeh and Ameh (2010) also examined the effect of exchange rate fluctuations on Nigerian manufacturing industry. They employed multiple regression econometric tools, which revealed a negative relationship between exchange rate volatility and manufacturing sector performance. Aghion*et al*. (2009) found a similar result, but they also showed that the negative effect of real exchange rate volatility on economic growth shrinks in countries with higher levels of financial development.

Barkoulas et al (2002) examined the impact of exchange rate fluctuation on the volume and variability of trade flows. They concluded that, exchange rate volatility discourages expansion of the volume of trade thereby reducing its benefits. Eichengreen and Leblang (2003) carried out their research in 12 countries over a period of 120 years and found strong inverse relationship between exchange rate stability and growth. They concluded that the results of such estimations strongly depend on the time period and the sample. Ogun (2006) studied on the impacts of real exchange rate on growth of non-oil export in Nigeria highlighted the effects of real exchange rate misalignment and volatility on the growth of non-oil exports. He observed that irrespective of the alternative measures of misalignment employed, both real exchange misalignment and volatility adversely affected growth of Nigerian non-oil exports.

Arize, Osang, and Slottje (2000) found a significant negative relationship between increases in exchange rate volatility and exports in developing countries. Servén (2003) showed that real exchange rate volatility negatively affects investment in a large panel of developing countries. This negative impact is significantly larger in countries with highly open economies and less developed financial systems. He also found evidence of threshold effects, whereby uncertainty only matters when it is relatively high. A similar study, Eme and Johson (2012) investigated the effect of exchange rate movements on real output growth in Nigeria for the period 1986 – 2010. The result revealed that there is no evidence of a strong direct relationship between changes in exchange rate and output growth. Rather, Nigeria economic growth has been directly affected by monetary variables.

Morenikeji, &Njogo, (2012) examined the impact of small and medium scale enterprises in the generation of employment in Lagos State. They found a correlation between small and medium scale enterprises and sustainable Development of the Nigerian economy. In other words that promotion of SMES and improvement in employment generation were related. Anigbogu, Okoye, Anyanwu, Okoli (2014) looked at Real Exchange Rate Movement- Misalignment and Volatility- and the Agricultural Sector: Evidence from Nigeria using single-regression model via the ordinary least squares. They found that RER misalignment and RER volatility impact negatively on agricultural production value. Also, appreciation of the RER inhibits the sector's Performance, while, on the contrary, financial intermediation to the sector (proxy as the ratio ofAgricultural bank credit to total bank credit) serves as a positive impetus to the sector. Jongbo, (2014) investigated the impact of Real Exchange Rate Fluctuation on Industrial output in Nigeria. They found that real exchange rate played a significant role in determining industrial output and that in addition, availability of foreign exchange increased through contentious export drive from both oil and non-oil products, which contributed tremendously to, increased industrial output.

III. Methodology

The study adopted a descriptive survey design. The population of the study comprised of 2,388 members of staff of twenty Small and Medium Enterprises(SMEs) in Delta State, Nigeria.The sample size of the study is 477 members of staff drawn from the entire population of 2,388 in selected Small and Medium Enterprise in Delta State. Krejcie and Morgan (1970)was used to determine the sample size. Purposive sampling technique was adopted for the study. This has to do with the researcher choosing 20 Small and Medium Enterprises from a total of 2388 small and medium enterprises in Delta State. The justification for this is that the study focused only on identified seasoned SMEs owners in Delta State who were technically and operationally judged SMEs operators. The choice of these 20 Small and Medium Enterprises was based on their evenly distribution and engagement in nine (9) different types of manufacturing activities. Cronbach's Alpha coefficients for the constructs ranged from 0.867 to 0.936. This enabled the researcher to gather results at the stipulated time. In addition, linear regression analysis was used to analyse the data. This because regression analysis helps to show the influence or effect between the independent and dependent variables of study.

The model for analysis is;

$Y= f(X)$

$y_1 = \beta_0 + \beta_1 x_1 + \mu$ ……...equation 1

Where,

Y = SMEs development

X = Exchange rate

β_0, β_1, coefficients of determination

μ = the error terms

IV. Discussion Of Findings

Re-statement of Hypothesis

H_{01} Exchange rate does not has significant effect on SMEs development in Delta State

Coefficients[a]						
		Unstandardized Coefficients		**Standardized Coefficients**		
Model		**B**	**Std. Error**	**Beta**	**t**	**Sig.**
1	(Constant)	1.020	.073		13.888	.000
	Exchange rate	.575	.026	.763	21.943	.000
a. Dependent Variable: SME development						

As shown in Table 1, F = 481.482, (R) = .763, (R^2) =.582. p value = .000 which is lesser than 0.05 level of significance. This means that since the p value, which is .000, is lesser than the level of significance which is 0.05, therefore it can be said that exchange rate has positive significant effect on SME development in Delta state. Going by this, the null hypothesis is rejected. Findings in this study revealed that the level of monetary policy in the context of exchange rate on SME development in Delta state is low. This submission aligns with the assertion of Aliyu (2011) who asserted that appreciation of exchange rate results in increased imports would bring about reduced export while depreciation would expand export and discourages import. As if SME operators have a clear understanding of this, SME operators in Delta state expressed the fact that cost of importing goods for their business is taking its toll on their business. Logically, the higher the exchange rate of one's country is, the more rigid it will be for individuals doing business in that country maximizes profit. This opinion of SME operators in the country bore their frustration on the fact that fluctuating exchange rate in the country has contributed immensely to many SMEs folding up.

A major way of putting smile on the faces of these SME operators is that the government should decentralize the monopoly of exporting goods to other countries. Most of the respondents of this study expressed their mind that they don't mind exporting some of their end product to other countries. If this is done, they will massively benefit from the fluctuating exchange rate of the country.

Also in starting up various SMEs in Delta state, many of the respondents expressed the fact that they need to import certain materials to make their business boom. This assertion is related to price control based on the exchange rate of a country. Hossain (2002)'s view is in line with this when he asserted that exchange rate helps to connect the price systems of two different countries by making it possible for international trade and also effects on the volume of imports and exports, as well as country's balance of payments position. Azeez, Kolapo and Ajayi (2012)'s study investigated the effect of exchange rate volatility on macroeconomic performance in Nigeria from 1986 – 2010. They discovered that exchange rate is positive related to Gross Domestic Product. Even though this study made use of secondary data, it was found that exchange rate has a positive impact on the country's gross domestic product.

This finding is also connected with the finding of this hypothesis. SMEs in Delta state contribute highly to the gross domestic product of the country's economy, since it has therefore been established that exchange rate will go a long way in determining the level of SME development in the state and nation as a whole. Also, the finding of this hypothesis tallies with that of Bosworth, Collins, and Yuchin (1995) who provided evidence that in a large sample of industrial and developing countries, real exchange rate volatility hampers economic growth and reduces productivity growth. Exchange rate volatility should not be encouraged in the country as this will contribute negatively to the development of SMEs in not only Delta state but also in the country as a whole. It is therefore imperative for regulatory bodies in the state to actually workout a framework for SMEs to actually benefit from the country's exchange rate in a way that they will be able to export some of their produce to other countries.

V. Conclusion and Recommendations

The study concluded that Exchange rate has positive significant effect on SMEs development in Delta State. The achievement of a stable exchange rate has been a difficult task confrontingmany countries, particularly developing countries. A favorable or stable exchange rate leads to accumulation of foreignexchange, which would be used to development basic infrastructure that will result in growth and development of the economy. The findings of this study has empirical shown that real exchange rate in Nigeria starting from the introduction of Structural Adjustment Programme (SAP) has significantly affected the economy. Although there is no prescribe rate of exchange that guarantees economic growth, monetary authorities should always strive through policies to maintain a stable exchange rate system devoid of frequent volatility. Based on the findings of this study, the following recommendations are put forward for policymakers for attention:

- The Central Bank of Nigeria should put in place a strict foreign exchange policy control to ensure that the value of Naira against other currency is properly determined. Unethical practices by banks leading depreciation of the Naira should be investigated and erring operators sanctioned accordingly.
- Incentives, e.g. tax holiday and subsidies should be given to local manufacturers to improve output. An industrial blueprint should be put in place to allow a connection between agriculture and manufacturing to increase foreign exchange from exports.
- The researchers could only collect data for thirty (30) years, though it is reliable in statistical term but less than what it initially proposed. The Central Bank of Nigeria annual report and statistical bulletin for 2016 is not available online, for this reason, the study was ended in 2015 instead of 2016 that was originally intended.

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