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ASSESSMENT OF THE IMPACT OF MICROFINANCE BANKS ON SMALL AND MEDIUM SCALE ENTERPRISES IN NIGERIA (1992 -2015)

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Abstract —*This paper assesses the impact of microfinance bank on small and medium scale enterprise in Nigeria. The study admits that microfinance banks products are the sources of SMEs growth in Nigeria despite of its attendance shift and shortcomings in the realisation of the schemes objectives. Though, the past efforts by the Nigeria government to promote the scheme has not yielded much desire outcomes, microfinance banks still holds a lot of prospects for the active low income earners. It creates employment opportunity, reduces vulnerabilities, empowers the poor and enhances their innate consumption propensity. The study uses secondary data covering from 1992 to 2015 and adopted econometric techniques of OLS for analysis. Specifically, the empirical results revealed generally that a microfinance bank loan has a significant negative relationship with SMEs in Nigeria in both short run and at long run. The negative state of the result is an indication that Microfinance LOAN has not really yielded the expected positive impact on SMEs. All the other coefficients of MASSET, MDEP and MGE failed the significance test at the 5% per cent level. This indicates that in the short run, the level of MASSET and activities has a rather weak positive effect on SMEs performance in Nigeria. The implication of this result is that, increase in the level and performance of SMEs is not necessarily caused by the size microfinance banks in the country in the short run. This also goes to show that the total microfinance assets based in the country is rather too weak to fully support or provide any meaningful impact on the SMEs sector in Nigeria. It concludes therefore that there is the urgent need for microfinance banks operations and the relevant regulatory authorities to come up with policy measure that will ensure that microfinance banks assets base, deposits and gross earnings are improved upon in order to effectively support the growth of the SMEs sectors in the country. It recommends that the government should arise to its responsibility to the sector by providing the enabling environment for microfinance bank to strive and effectively supporting SMEs. Hence, there is the need also to spread the loan repayment over a long period or increase the moratorium so as to enable the microfinance clients have a greater use of the loan over a reasonable period for meaningful and profitable investment which ensure easy repayment*.

Index Terms— Microfinance Bank, Small, Medium, Enterprises, assets, loan s, gross earning

1 BACKGROUND OF THE STUDY

In Nigeria, credit has been recognized as an essential tool for promoting small and medium scale enterprises. The introduction of microfinance banks in Nigeria is the inability of Nigerian Deposit Money Banks (DMB) to provide sufficient financial service to the rural and urban poor people. Microfinance Banks' Lending has proven to be a potent tool for poverty reduction by helping the poor becoming Entrepreneur and Entrepreneur increases their income, smooth consumption, build assets and minimizing their vulnerabilities in time of contingencies and economic shocks [97]. Despite the abundant natural resources, the country still finds it very difficult to discover her developmental bearing since independence. Most of the poor and unemployed Nigerians in order to better their lots have resorted to the establishment of their own businesses and making entrepreneurship fast becoming a household name in Nigeria.

The impact of microfinance banks on small and medium scale enterprises (SMEs) has risen the subsistence bar of entrepreneurship in most sectors of the Nigeria economy. Nigeria has the largest population in sub-Saharan Africa with estimated population of about 170 million out of total population of 1.1 Billion in African and 782.5 million in Sub-Saharan African respectively [16]. Based on data provided by the Nigeria Bureau of Statistics (NBS), 2011, the unemployment rate in Nigeria has increased from 7.4 % in first quarter to 8.2 % in second quarter and 9.90 % in third quarter 2015, while 6.4 % in the last quarter of 2014 and a decline of 24.7 % in 2013, compared to 27.4 % in 2012, 23.9 % in 2011, 21.4% in 2010, 19.7% in 2009, 14.9% in 2008, 12.7% in 2009, 12.3% in 2006, 11.9% in 2005, 13.4% increase in 2004, 14.8% in 2003, decline of 12.6% in 2002, 13.6% increase in 2001 and 13.1% in 2000 respectively. In order to boost employment in Nigeria, the government has focused on the area of credit delivery to the poor and small and medium enterprises (SMEs). Efforts in this respect include developing policies and creating institutions for mobilizing and deploying capital funds to SMEs so as to encourage employment [10].

Microfinance has the ability to strengthen micro enterprises and encourage best practices among operators of Small and Medium Scale Enterprises (SMEs). A bid to achieve the policy objective for Nigeria, the microfinance supervisory regulatory framework was launched in December 2005 [18]. The framework provides a roadmap for the participation of stake holders in microfinance provision. This enabled the conversion of 606 community banks to microfinance banks (MFBs) at the end of December, 2007 with the licensing of 363 by 31st August, 2010 the total numbers of 969 MFBs were operationally licenced which was geared toward the provision of financial services through non-governmental organizations, deposit money banks and microfinance banks. In that regards, the CBN stipulates that 80% of MFB lending portfolio must go to micro. Accordingly, the policy was providing for the establishment of microenterprises as well as other non-financial services, the Nigeria Microfinance Newsletter, (2010) cited in [106], [28], [96]. However, since the framework initiative has been launched much has not been seen in site about the relevance of microfinance on SMEs.

Prior to the above policy were the past policies and strategies that failed to generate self-sustaining growth largely because of their preference for the establishment of large scale firm to the detriment of small and medium scale enterprises which is the bases of self-reliance and hence, economic growth particularly when small medium scale enterprises is manufacturing and export oriented. On that regard, the SMEs in rural areas also lack the necessary financial services, especially credit from the commercial banks because they are considered not credit worthy. Consequently, they depended on families, friends and other informal sources of funds to finance their businesses. In addition, an overview of the performance of the micro enterprises in Nigeria indicates that previous policies made limited impact on the micro enterprises sector as observed by [111] thus, that in 2005, CBN launched the Microfinance policy guidelines for Nigeria, which seeks to commercialize the business of microfinance. However, the new policy set a minimum capital requirement of N20 million for MFBs by 31 December, 2007 and supervisory framework as issued by the CBN in 2005 sought to encourage the development of SMEs and empower low income groups in Nigeria. From 2005 when the guidelines for establishing microfinance bank were rolled out by the central bank of Nigeria, the number of microfinance banks in Nigeria has grown [71].

The policy mandated all community banks to convert to MFBs under a new capital base of N20 million with a deadline for compliance in 31 December, 2007. The policy was to boost capacity of micro, small and medium enterprises towards economic growth and development through financial intermediation [105], [104]. However, Small and Medium Scale Enterprises (SMEs) are seen as backbone of all economics and are a key source of economic growth, dynamism and flexibility. A study done by the Federal Office of Statistics shows that 97% of all Business of this population in Nigeria employs less than 100 employees, implying that 97% of all business in Nigeria are to use the Umbrella term, "Small Businesses". It further stressed that the SMEs sector provide on average 50% of Nigeria's employment and 50% of its industrial output [88], [103] indeed, there appears to be an agreement that the development of SMEs in Nigeria is a step towards building a vibrant and diversified economy.

Subsequently, these are found in various governments' key development strategies such as Better Life for Rural Women Project during president Abrahim Babangida's regime (1985-1993), the Family Support Program (later Renamed the Family Economic Advancement Programme) during the late General Sunny Abacha' reign (1993-1993), president Olusegun Obasanjo's regime introduced the National Poverty Eradication Programme (1999-2007), the National Economic Empowerment Strategy (NEES), seven (7) point Agenda by president Musa Umaru Yardua (2007-2009), the Transformation Agenda by president Goodluck Ebele Jonathan and youwin programme (2009-2015) and Empower programme of Mr. Buhari administration (2015 to date) [53]. Over the years, microfinance however, has emerged as an effective strategy for employment creation and poverty reduction and across developing countries, micro, small and medium enterprises are turning to microfinance institution (MFIs) for an array of financial services. In many countries, these MFIs have emerged as a response to address unemployment and the failure of state led and mainstream formal financial system to reach the poor who were not seen as bankable clients [111]. Accpordingly, the NBS 2002 in [7] explained that 112.5 million Nigeria live in relative poverty conditions. United Nations (UN) declaration of 2005 as the international year of microcredit termed toward achieving extreme hunger and poverty eradication by Millennium Development goals set September 2000.

However, formal credit and savings institutions for the poor have also been around for decades, providing customers who were traditionally neglected by commercial banks away to obtain financial services through cooperatives and development finance institutions, Consultative Group to Assist the Poor [34]. Accordingly, [95] noted that credit has been recognized as an essential tool for promoting small and medium scale enterprises that over the years several traditional microfinance institutions, Such as self-help groups, esusu, and rotating savings and credit associations have been set up to provide credit for SMEs. Savings and credit groups that have operated for centuries include that of "Susus" of Ghana, "Chit Funds" in India, "Tandas" in Mexico, "Arisan" in Indonisia, "Cheetu" in Srilanka, "Tontines" in West Africa, "Pasanaku" in Bolivia, "Otunedemelen" of Esan in Nigeria as well as numerous savings clubs and help societies found all over the world [160]. [31] reports that the formal financial system provide services to about 35% of the economically active population, while the remaining 65% are often served by the informal sector. The microfinance policy recognizes these informal institutions and brings them within the supervisory purview of the CBN [119].

The total registered MFBs in Nigeria as at the end of 2011 stood 993 [33], [98], [146] indicating presence in all the 774 local government in Nigeria though this figure has been slide down in the recent time due to some declines, uncertainty and challenges. [61] observed that out of the 869 microfinance banks in existence, 346 or 39.81 per cent are located in the South West geographical Zone, 162 or 18.64 per cent are in the South East; 158 or 18.8 per cent in the North Central, while 63 or 7.25 per cent and 32 or 3.68 per cent are located in the North West and North East respectively [40]. Microfinance profile in Nigeria shows the value of loans at 88.2 million, USD, 2010, active borrowers of 582, 264 (2010), value of Deposits 62.3 million, USD, 2010 and number of depositors 710, 224 (2010) from 33 MFBs (Max Market database, 2011 in [4]. Since Nigeria's participation in the international conference in 2000, some economic reforms which directly or indirectly impact microfinance banks have been undertaken and part of the policy provides for the setting up of private sector driven microfinance banks to provide financial services to the poor and low income groups [17]. More specifically, in a world bank study on lending for small and micro-enterprises project, there objectives of microfinance institutions are frequently cited as to increase the productivity and income vulnerable groups, especially women and the poor; and to reduce rural families' dependence on drought-prone crops through diversification of their income generating activities [158].

Accordingly, [26] articulates that some of the roles of microfinance in Nigeria include the distribution of loans that are not much on small firms which should be repaid within a brief time phase with less security. The intention of the federal government of Nigeria is to cover up the greater part of the poor, however, cost effectively dynamic populace by 2020 this, generating much Jobs and plummeting poverty; add to the portion of micro credit as proportion of total credit to the economy from 0.9 per cent in 2005 to at least 20 per cent in 2020; and [102] the share of micro credit as percentage of Gross Domestic Product (GDP) from 0.2 percent in 2005 to at least 5 per cent in 2020; to support the contribution of at least two-thirds of state and local government in micro credit financing by 2015; to get rid of gender differences by increasing women's right to use monetary and financial services by 5% yearly; and to raise the amount of connections among universal banks, development banks, specialized finance organizations and microfinance banks by 10% annually [102], [66]. As at March 2011, the total deposit mobilized and total loans create by the 596 MFBs who representing about 60% of the total MFBs in operation which were N326.85 billion and 251.96 billion respectively. These absolute figure indicate that microfinance subsector in Nigeria is being patronized by the citizens.

A study conducted by Enhancing Financial Innovation and Access [47] revealed that 3.2 million Nigerians representing 3.8% of the adult population had a microfinance bank of which 57.9% were males and 42.1% were females while 1.8% million Nigeria 2.1% of the adult population used their MFB account as their main bank account [155]. Against the backdrop of concerns expressed by stakeholders and the need to enhance financial services delivery, the 2005 microfinance policy, regulatory and supervisory framework for Nigeria was revised in April, 2011 and in exercise of the power conferred on the CBN by various provisions of section 28, subsection (1) (b) of the CBN Act 24 of 1991 (as amended) and in pursuance of the provisions of sections 56-60 (a) of the bank and other financial Institutions Act (BOFIA) 25 of 1991 as Amended [90]. Moreover, Microfinance has brought positive impact to the life of clients, boost the ability of poor individuals to improve their conditions and others have indicated that poor people have taken advantage of increased earning to improve their consumption level, health and build assets [42]. However, the study is to assess the impact of microfinance banks on small and medium scale enterprises in Nigeria form 1992 to 2015.

1.2 Statement of Research Problem

There were unresolved issues with respect to microfinance banks (MFBs) delivery on small and medium scale enterprises (SMEs) in Nigeria which through the research effort would be pursued or resolved. Despite several efforts by the Federal Government of Nigeria to ameliorate the plights of indigenous entrepreneurs, more small scale manufacturing enterprises are shutting down their operations due to poorly packaged services delivery, inadequate dissemination of savings mobilized, retarded growth, collateral requirement for credit facilities, poor asset quality, deposits, and liquidity problems. These challenges are traceable to increasing departure from the MFBs objectives, procedures and templates for the operations of microfinance banks. It has been speculated that the problem of MFBs delivery on small and medium scale enterprises presupposes from the product scope, lack of effective, coherent and enhanced operations as well as deviation from policy trust for regulatory supervisory framework. This subsumed draw back for the development of small and medium scale enterprises in Nigeria as well as denied SMEs access to fund which would have mitigate them against ambush or onslaught losses. However, this berates the fact that savings mobilized to meet shortfall derides from reaching the targeted audience for SMEs purposes and as a result, the indigenous firms became weaken and disintegrated from usual growth.

Suffice to say that the failures on the part of MFBs to provide this microcredit incentive creates gap between effective operations of these MFBs and access to funds to do business. Hence, reduces self-employment profit, sufficient contribution to gross domestic product, and household welfare. However, this access to fund poses major challenges for small and medium scale enterprises. This has affected the setting up, survival and growth of SMEs in Nigeria. The challenges is that most of its funding goes to the commercial sector to the detriment of the more vital economic activities especially agricultural and manufacturing sector which provide the foundation for sustainable growth and development of the economy. Currently only about 14.1 and 3.5% (percent) of the total Microfinance Institutions (MFI) funding got to these sectors while the bulk 78.4% (percent) funded commerce respectively [19], [126]. A significant number of the newly licenced MFBs were established or operated like mini commercial banks. There is also the problem of lending to poorly packaged projects making it difficult to achieve the desired outreach level.

Against this backdrop, notable literature reviewed that funds disbursed to these SMEs through MFBs did not get to them either the funds is diverted or ostracized. Due to this fact, majority of the SMEs are unable to access loans from MFIs thus failing to obtain start-up capital for business purposes and growth. This is because the microfinance sector is fraught with many challenges, with evidence showing that the MFIs experience problems relating to information asymmetry and perceptions. Moreover, government initiatives were not also successful because MFIs are facing challenges with regards to promoters' low entrepreneurial skills. This provides a platform for informal institutions to attempt to fill the gap usually base on informal social networks, and this is what gave birth to micro financing [142], [141], [9], [148], NDIC, (2012) in [13]. However, the growth in microfinance activities reflects the expansion of informal sector activities and the exclusion of a larger proportion of economically active population from the various financial services of the formal sector. The growth has been observed to be restricted to size without commensurate increment in product scope. Microfinance Banks in Nigeria still confine themselves to the provision of mainly traditional banking services thereby denying their clients of several benefits accruable from the non-traditional products.

This pose a serious threat, lack of access of small and medium scale enterprises to credit facilities due to collateral requirement and also hampered their contribution to economic growth and development as it has affected the setting up, growth and survival of SMEs [73], [99]. In that regard, Nigeria government has made several efforts and programs in the past to cater for this sector. Though, lack of adequate financing for the SMEs and the reluctance of microfinance banks to extend credit to them is traceable to among other reasons, due to inadequate collateral by SMEs operators, weak demand for the products of SMEs as a result of the dwindling purchasing power of Nigerians, lack of patronage of locally produced goods, poor management practices by SMEs operators and undercapitalization. The impression has been that lack of fund or inadequate funding is the major root cause of several SMEs unproductive activities and closure in Nigeria which is the reason why government made microfinance banks the major sources of capital provider for SMEs. In spite of the positive impact of microfinance banks to the nation's economy, many of the disadvantaged and economically active poor remained financially excluded while many micro entrepreneurs still lack access to credit thereby impending economic growth and development.

Moreso, financing small and medium scale enterprises is considered by many funds providers as a risky venture due to higher transaction cost and low returns, and going concern of the business especially in the early stages [108]. A study by World Bank on poverty reduction estimated sixteen year period, 1980-1996. The estimated number rose from 18 million in 1980 to 35 million in 1985 to 39 million in 1992 and 67million in 1996 and by the end of 1999, estimated number of poor rose to 74.2 million without equivalent proportion in MFBs loans to support or alleviate as well as generate investment opportunities for SMEs [160]. A study by Enhancing Financial Innovation and Access [47] shows that some Nigeria precisely 44.7% still has never heard of microfinance, 35% have heard and are aware of what microfinance is all about while 19.8% have heard but never known what microfinance is all about. In that same study, 39.2 million representing 46.3 per cent of the adults in Nigeria was excluded from financial services. Out of the 53.7 per cent that had access, 36.3 per cent derive their financial services from the formal financial institutions, while 17.4 per cent exclusively patronized the informal sector in Nigeria. Also, the results of the survey revealed that Nigeria was lagging behind South Africa, Botswana and Kenya with 26 per cent, 33 per cent and 32.7 percent in financial inclusion rate respectively after the launching of the microfinance policy [14]. This research stands to investigate the impact of microfinance banks on small and medium scale enterprises in Nigeria.

1.3 Objectives of the Study

The main objective of the study was to assess the impact of microfinance banks on small and medium scale enterprises in Nigeria

The specific objectives were as to;

i. assess the impact of microfinance bank assets had on small and medium scale enterprises in Nigeria?

ii. establish whether microfinance bank deposits operation improved the development of small and medium scale enterprises in Nigeria?

iii. analyse whether microfinance bank gross earnings provided investment opportunities for small and medium scale enterprises in Nigeria?

iv. evaluate the influence microfinance bank loans had on the growth of small and medium scale enterprises in Nigeia?

1.3 Research Questions

The research work seeks to find answers to the following questions;

i. to what extent does microfinance bank assets impact on small and medium scale enterprises in Nigeria?

ii. to what extent does microfinance bank deposits operation improve the development of small and medium scale enterprises in Nigeria?

iii. to which extent does microfinance bank gross earning provide investment opportunities for small and medium scale enterprises in Nigeria?

iv. extent to which does microfinance bank loans influence the growth of small and medium scale enterprises in Nigeria?

1.5 Research Hypotheses

The following null hypotheses were formulated as a support for testing the data collected for the study:

i. There does not exist a positive and significance impact between microfinance bank assets and small and medium scale enterprises in Nigeria?

ii. There does not exist a positive and significance improved development between microfinance banks deposits operations and small and medium scale enterprises in Nigeria?

iii. There does not exist a positive and significance impact between microfinance bank gross earnings and provision of investment opportunities for small and medium scale enterprises in Nigeria?

iv. There does not exist a positive and significance influence between microfinance banks loans and the growth of small and medium scale enterprises in Nigeria?

1.6 Scope of the Study

This research seeks to assess the impact of microfinance bank on small and medium scale enterprises in Nigeria. The study uses secondary data from Central Bank of Nigeria Statistical Bulletins, Central Bank of Nigeria Publication Reports and Statement of Accounts. Microfinance Banks that are unable to meet the statutory submission of their annual reports were deemed to be non-performing by the regulatory bodies. This study focused on entire microfinance bank data with active performance and covered a period of 24 years annual reports from 1992 to 2015 as well as employs statistical tools of the ordinary least squares (OLS) of the econometrics for analyses.

2. REVIEW OF RELATED LITERATURE

2.1 CONCEPTUAL REVIEW

2.1.1 Concept of microfinance bank assets, deposits and gross earnings on small and medium scale enterprises in Nigeria

The concept of microfinance is not new. Microfinance Banks on SMEs, though its emergence appears as has fulfilled the completion of the microfinance policy of the Nigeria government. This often than none said to have remove the barricade between the ability of the low income earners, SMEs, disadvantages and the poor whose their fortune were at stake. And the capacity to acquire facilities in the conventional banks was also relatively slim due to their interest and the need for collateral which they do not have to smooth consumption and business preferences[11]. The concepts of microfinance is considered providing financial services to low income groups and poor people, the original focus of microfinance was on the provision microcredit small loans usually for short periods to finance working capital for small enterprises usually operate by low income people. However, the field of microfinance has broaden greatly beyond credit only, to include microsavings, micro insurance, remittances and other payments all of which have a great impact on the lives of the SMEs [72]. However, savings and Credit groups that have operated for centuries include the "Susus of Ghana, "Chit fund" in India, Tendas" in Mexico, "Arisan" in Indonesia, "Ajo" in Nigeria "Cheetu" in Sri Lanka, "Tontines" in West Africa, and "Pasanaku" in Bolivia as well as numerous savings clubs and burial societies found all over the world (Archievers, 2006 cited in [160]).

According to 155], the Central Bank of Nigeria (CBN) formulated the National microfinance policy in December 2005 in order to deepen the access of micro entrepreneurs to financial services. A liberal access of micro entrepreneurs to financial services is expected to boost, expand and or modernize the operations of their business so that this class of entrepreneurs can be economically empowered and thus be able to contribute to national economic growth and development. In 2004, the consultative Group to assist the poor (CGAP) promulgated several principles summarizing the essence of microfinance. These principles which were later endorsed by the Group build-up of eighty leaders at the G8 summit on June 10, 2004 are as follows

1) Poor people need not just loans, but also savings, insurance and money transfer services.

2) Microfinance can pay for itself. This is owing to the fact that subsidies from donors and government are scarce and uncertain; to reach large number of poor people, microfinance must pay for itself.

3) Microfinance means building permanent local institutions. It also means integrating the financial needs of poor people into a country's mainstream financial system.

4) Interest rate ceilings hurt poor people by preventing microfinance institutions from covering their costs which chocks off the supply of credit.

5) Microfinance institutions should measure and disclose their performance both financially and socially.

6) Donor funds should complement private capital, not compete with it.

7) The job of a government is enable financial services, not to provide them.

8) The key bottleneck is the shortage of strong institutions and managers. Hence, donors should focus on capacity building.

9) Microfinance must be useful to poor households, helping them raise income, build-up assents and/or cushion themselves against external shocks [91], [71].

According to [96], solution to provide solution to unemployment problems and enhanced the growth and development of the nation, various efforts had been made by the Nigerian government to spur entrepreneurship activities in the country. Such efforts include the promulgation and establishment of the National Directorate for employment (NDE), Nigeria Industrial Development Bank (NIDB), Nigerian Enterprises promotion Decree (NEPD), peoples Bank of Nigeria (PBN), Community Banks (CB), Family Economic Advancement Programme (FEAP), and National Poverty Eradication programme (NAPEP) to mention but a few [120], [95], [114], [128]. Against this backdrop, [18] infers that Microfinance Banks were established to provide microcredit for the entrepreneurs to enhance economic activities and enhance their profit levels. [117] confirmd that the involvement of the MFBs has helped broaden the scope of activities of the SMEs through the provision of required working capital and fixed assets. This, further said will subsequently improve the standard of living of the available essential commodities [12].

In order to highlights or addresses the funding requirements of this criteria segment of the economy. Section 6.10 of the revised microfinance policy, regulatory and supervisory framework for Nigeria stipulates that a microfinance development fund shall be set up, primarily to provide for the wholesale funding requirement of MFBs/MFIs. The policy stipulates 80:20 prescriptions for on-lending to Micro Enterprises and Small Medium Scale Enterprises (SMEs) respectively. Hence the decision of the Central Bank of Nigeria to give it a new name as micro, small and medium enterprises development fund (MSMEDP). The Guidelines specifically sets out the general modalities for operating the N 220.00 billion MSMEDF. Thus, the fund shall have a take-off seed capital of N 220 billion which 60 percent shall be committed to providing financial services to women. The fund has Social/developmental objectives/grants and Commercial Objectives. Ten per cent of the fund and 90% (per cent) are respectively earmarked for social and developmental and commercial objectives respectively [37], [41].

1). The Social/Developmental Objectives Categories are;

- Grants (5%) N 11.00 Billion
- Interest Drawback program (3%) N 6.60 Billion
- Managing Agent's (MA) operational Expenses (2%) N 4.40 Billion

The N 11.00 billion for grants will fund programmes that are aimed at developing the MSME sub-Sector. The application details show that;

- Capacity building of staff of microfinance Banks (MFBs), Microfinance Institutions (MFIs), similar Institutions and their apex bodies,
- Development of financial Infrastructure in support of MSMEs,
- Promotion of MSME friendly financial Innovations and products,
- Promoting the development of appropriate regulatory regime for MSME lending,
- Research and Development,
- Supporting Initiatives that will promote financial literacy, entrepreneurship development,
- Supporting programmes that are geared towards the mobilization, training and linking of MSMEs to financial services.

2). Commercial Objectives categories are that the 90% (percent) of the fund, amounting to N198 billion, will be utilized for the provision of direct on-lending facilities to participating financial institutions (PFIs) as follows;

	Women 60% N' billion	Others 40% N' billion	Total N' billion
• Wholesale funding (90%)	106.92	71.28	178.20
• Refinancing and Guarantee (10%)	11.88	7.80	19.80
• Total (100)	118.80	79.20	198.00

Accordingly, the Regulatory and Supervisory framework for Nigeria line with the provisions of the microfinance policy and in terms of type of enterprises to be funded, the fund shall be dispensed as follows;

	Women N'billion	Others N'billion	Total N'billion
Microenterprises 80 % of the commercial component	95.04	63.36	158.40
SMEs 20% of the commercial component	23.78	15.84	19.80
Total	18.8	79.20	198.00

The framework disclosed that maximum loan amount "Limit of wholesales funding" as shown below or 100% of shareholder's fund unimpaired by losses for participating MFBs and finances desirous of facilities in excess of the amounts shown below. Thus, all the facilities will have option of roll-over upon satisfactory utilization.

SN	Financial Institution	Facility Limit
1.	Unit Microfinance	N 10 Million
2.	State microfinance	N 50 Million
3.	National Microfinance	N 1 Billion
4.	NGO/MFIs	N 5 Million
5.	Financial Cooperation	N 5 Million
6.	Financial Companies	N 5 Million

It therefore holds that the fund shall be administered at an interest rate of 9 % to the PFIs with a spread of 6% bringing the lending rate to a maximum of 15% per annum. This is subject to review by the steering committee of the fund. However, SMEs seeking facilities for asset acquisition are entitled to an appropriate moratorium to be decided by the MA on case by case basis. The facility shall have a maximum tenor of 3 years depending on the type of enterprise (MSME). On-lending to clients shall be based on the assessment by the PFIs, but subject to the provisions of the single obligor limit as specified in the prudential guidelines of the Central Bank of Nigeria (www.cbn.gov.ng).

The following incentives applied to ensure that PFIs perform well in the utilization and repayment of their facilities.

Table 3

Client Category	Interest Rate	Size of Facility	Time taken to Approve Facility	Facility Grant Support
Bronze: Repaid loans as at when due twice	Lending Rate (9%)	Original Loan X 2	4 Weeks	Up to 20 % of approved activity cost
Silver: Repaid loans as at when due three times	Lending Rate (9%) minus 1	Original Loan X 3	3 Weeks	Up to 30 % of approved activity cost
Gold: Repaid loans as at when due four times	Lending Rate (9%) minus 2	Original Loan X 4	2 Weeks	Up to 40 % of approved activity cost
Diamond: Repaid loans as at when due five times	Lending Rate (9%) minus 3	Original Loan X 5 or more	1 Week	Up to 50 % of approved activity cost
Platinum: Repaid loans as at when due more than five times	Lending Rate (9%) minus 4	Original Loan X 8 times	Less than one Week	Could be more than 50 % of approved activity cost

Sources: [28], Microfinance Policy, Regulatory and Supervisory Framework for Nigeria. A publication of CBN, Abuja, Nigeria.

[67] debunked that the availability and cost of finance are regarded among the factor militating against the growth of SMEs. Although, access to finance does not itself guarantee growth and sustenance of small business it has been shown that absence of adequate level of finance can frustrate the formation of growth of SMEs. In his words, [9] acknowledges that despite decades of public provision and direction of provision of microcredit, policy reorientation and the entry of

new players, the supply of microfinance in Nigeria is still inadequate in relation to demand. Therefore emphasized that some inefficiency in microfinance operations in Nigeria due to some institutional inadequacies such as under capitalization, inefficient management and regulatory and supervisory loopholes that the Banks have always collaborated and cooperated with government in lending especially with respect to lending to macro, small and medium scale enterprise (SMEs) as well as real sector [109].

Moreover, Microfinance Institutions (MFIs) in Nigeria were established with the aim of assisting SMEs in providing capital for expansion, although poor assets base and demand for collateral by Banks, denies most SMEs access to capital [128]. This has been attributed in part to the failure of credit markets. The argument goes that the poor have so little to offer by way of collateral, and borrow such small amounts that it is too risky and too expensive to lend to them [12], [41]. Accordingly, [67] debunked that the rational options for many small scale businesses follow their diminished options for access to fund and is to consider the option of relationship lending. They noted that the term relationship lending refers to loans that require borrower to establish a relationship with the lender before recording credit. Relationship lending is important to small business and small banks engage more in relationship lending than do large Banks. Small businesses concentrate their borrowing at financial institutions with which they have long-term relationship. This relationship according to [150], can be mutually beneficial. A mutual benefit enables banks to collect information about the borrower's ability to repay and reduces their cost of providing credits [51].

In their words, it allows the borrowers better access to credit and lower cost of borrowing. Relationship loans, however, require tighter control and oversight over loan officers by sector management than do loans based on simple accounting and financial ratios [79]. The complexities of large banks make relationship loans infeasible or at least more difficult. Since senior management of small banks can monitor lending decisions closely. They can authorize more non-standard relationship loans to small businesses. On the other hand, Consolidation of small banks can however reduce the amount of credit available for on lending to small and medium scale businesses [150], [67]. In [136], [84], microfinance has offered an effective finance method for the construction of new socialist rural regions and has won the support of agriculture and farmers. Accordingly, [159] suggests that financial reforms have yet to create an institutional space in which microfinance will almost definitely have to await substantial further progress in creating a well-developed commercial financial system as he assessed the potential role of microfinance.

[99] opines that the loan to SMEs involve transaction cost. According to [25], transaction cost can be conceptualized as a non-financial cost incurred in credit delivery by the borrower and the lender before, during and after the disbursement of loan. The cost incurred by the lender includes, cost of searching for fund for loan, cost of designing credit contracts, cost of screening borrowers, assessing project feasibility, cost of scrutinizing loan application, cost of providing credit training to staff and borrowers, and cost of monitoring and putting into effect loan contracts. Furthermore, the borrower, that is SMEs, for this case may incur cost ranging from cost associated in screening group member or group borrowing, cost of forming a group, cost of negotiating with the lender cost of filling paper work, transportation to and from the financial institution, cost of time spent on project appraisal and cost of attending meetings etc. the parties involved in a project will determine the transaction cost rate. They have the sole responsibility to reduce the risk they may come across [149], [52].

2.1.2 Microfinance Definitions and concept of Microfince bank credits growth on small and medium scale enterprises in Nigeria

According to [31] microfinance bank on it microfinance policy described Microfinance as any company licensed to carry on the business of providing microfinance services such as savings, loan, domestic fund transfer, and other financial services that are needed by the economically active poor, micro, small and medium enterprises to conduct or expand their businesses. [38] sees microfinance as a provision of financial services to poor and low income households without access to formal financial institutions. [133] defines it as a revolution that involves the large scale provision of small loans and deposit services to low income people by secure, conveniently located and competing commercial financial institutions thereby generating the process needed to democratize capital. In his words, [132] says it as the provision of financial services to low income, poor and very poor self-employed people. These financial services accordingly generally include savings such as insurance and payment services. [76] finds out that microfinance is as just the provision of very small (micro credit) to the poor to help them engage in new productive business activities or to grow/expand existing ones.

[140] percifies that microfinance as the attempt to improve access to small deposits and small loans for poor households neglected by banks. On the other hand, [78] said, microfinance seeks to create access to credit for the poor who ordinarily are locked out of financial services in the formal financial market for reason of their poverty that places limitations on them for proper utilization and complete repayment of borrowed amounts at a high commercial interest rate. Accordingly, [100], [52]noted that as a development tool that grants or provides financial services such as very small credits, savings, micro-leasing, micro-insurance and money transfer to assist the exceptionally poor in expanding or establishing their businesses. However, Microfinance is the provision of small scale financial services to low income clients' parts, who have no access to financial services provided by the formal sector, conformity as ranted above, [139] infers that microfinance as small scale financial services primarily credit and saving, provided to people who farm fish or herd, who operate small enterprises or micro enterprises where goods are produced, recycled, repaired or sold, who provide services, who work for wages or commissions, who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools, and to other individuals and groups at the local levels of developing countries both rural and urban [63].

In his words, [35] saw microfinance as a collection of financial services, including credit, advices, money and insurance cover, accessible by poverty stricken industrialists and small commercial proprietors who have no security and would not otherwise meet the requirements for an average bank loan. [121] was not left out, as he defines microfinance as an economic approach to the delivery of financial services to those that are hitherto unreachable at a fee that is affordable and economic to the users of such services, and also, using funds from the providers of financial services to generate adequate returns for the users thereby building up their enterprises and creating employment opportunities which will reduce the poverty level in the economy. On this backdrop that [110] explains three features that distinguish microfinance from other formal financial products. These he said include the smallest of the loans advanced or savings collected, the absence of asset based collateral and simplicity of operations. On that note, [1] deduced that microfinance as an economic development approach intended to benefit low income women and men. Furthermore, however, is to reach the low income earners either in the urban or rural areas with financial services that will enable them creates wealth without any discrepancy as to the sex of such person. There are also several features of microfinance banks as identified and resides in [127], thus;

(i) The smallness of loans advanced to their customers
(ii) Small transactions and minimum balances (whether loans, savings or insurance)
(iii) Group lending
(iv) Simple application process
(v) Loans are for entrepreneurial activity
(vi) Provision of services in underserved communities
(vii) Savings from the customers are very small
(viii) The absence of asset based collateral
(ix) Development of good inter-personal relationship between the MFI and its customers leading to high degree of trust and openness on both parties.
(x) Simplicity of operation
(xi) The extension of banking services beyond economic to social and cultural benefit and amongst others (ADB, 2000; CBN, 2005; [127].

The growth of SMEs exclusively depends on the fundability of the Microfinance Institutions. In Nigeria micro, small and medium enterprises are heavily relied on microfinance help to either start or boost business activities.[123] articulated that access to finance is the only key to SMEs growth globally and Nigeria inclusive. In Nigeria, financial inclusion has been recognized as an essential tool for SMEs development. Lack of access to financial institutions also hinders the ability for entrepreneurs in Nigeria to engage in new business ventures, inhibiting economic growth and often the sources and consequences of entrepreneurial activities which are neither financially nor environmentally sustained. On the other hand, [36] acknowledged that there is no single strategy to firm growth. Therefore, the probability of achieving growth is increased by avoiding excessive emphasis on single strategy transformation initiatives and by giving different capabilities priority depending upon the development stage of the firm. Three factors were identified by them as limiting the growth of small business which includes ability, need and opportunity. [77] admits that the promotion of micro enterprises in developing countries is justified because of their abilities to foster economic development.

Accordingly, [62] confirms that access to loans is one of the major problems facing SMEs in Nigeria. [123] evolves that the main objective of micro credit is to improve welfare of the poor as a result of better access to SMEs loans that are not offered by the formal financial institutions. It is evident from literature that not all small businesses are growth oriented and for certain times' growth is a voluntary choice (Masurel and Montfort, 2006 cited in [3]. [161] emphases that the insufficient access to credit by the poor may have negative consequences for SMEs and overall welfare. Iterates that access to credit further increases SMEs risk bearing abilities, improve risk copying strategies and enables consumption smoothing overtime. The idea of creating microfinance institutions (MFIs) is to provide an easy accessibility of SMEs to finance/fund particularly those which cannot access formal bank loans. However, therefore, Microfinance banks serve as a means to empower the poor and provide valuable tool to assist the economic development process ([123].

In this backdrop that cooperatives also ensues to the duty of enhances the growth of microfinance banks. [63] noted that cooperative as an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. [11] claims that cooperatives focuses on the individuals who wishes to start or expand a business including small and medium enterprise (SME) to better social-economic life and this is led by individuals who can be considered entrepreneurial. [103] have said cooperatives as economic enterprises and as autonomous self-help organizations play a meaningful role in up lifting the social-economic conditions of their members and their local communities as well as running major international businesses. They are found in practically all countries of the world, covering almost all the major sector including agriculture, forestry, fishery, finance (i.e banking, microfinance and insurance), electricity generation and supply sides, construction, mining, housing, transport, manufacturing, trade and a wide range of social services. However, these help to improve and protect income as well as they generate employment opportunities and contributing to the growth and development of the ability of the active poor for investiture.

2.2 THEORETICAL REVIEW

The microfinance policy presented a blue print for the emergence of a regulated microfinance subsector in Nigeria under the supervisory purview of the CBN and with deposit insurance cover provided guidelines for the establishment of De novo microfinance Banks as well as migration of the existing community Banks and NGO-MFIs to microfinance Banks. The policy also directed community Banks that were unable to covert to MFBs to close shop. Furthermore, the policy provided for the emergence of two types of microfinance Banks namely. Unit microfinance Banks (MFBs) with a minimum paid-up capital of N 20 million and operational outreach not beyond a state of the federation and state MFBs with a minimum paid-up capital of N 1billion Naira and operational outreach across the state of the federation [155]. The growth of microfinance activity reflects the expansion of informal sector activities and the exclusion of a large proportion of economically active population from the sector.

Large volumes of financial transactions are concerned out by microfinance institutions, with little or no publicity around them. Their operations are not explicitly captured in official financial statistics and their activities are hardly reported on by the mass media yet their transactions impact directly on a large section of the population especially the poor and the small scale enterprises [32]. In this regards, the Central Bank of Nigeria study has identified as at 2001, 160 registered microfinance institutions in Nigeria with aggregate savings worth N 99.4m and outstanding credit of N 649.6 million indicating huge business transactions in the business [20]. Small and Medium enterprises (SMEs) are very important part of the Nigerian economy as a study by the IFC shows that approximately 96% of Nigerian businesses are SMEs [135]. The SMEs represent about 90% of Manufacturing/Industrial sector in terms of number of enterprises in Nigeria. Thus, every enterprise is financed either through debt or equity or a combination of both. These are usually sourced from either the informal finance sector (IFS) or the formal finance sector (FFs) [55].

SMEs are generally distinguished by the nature of their production and management arrangements, trading relations, financial practices, internal competence, etc. In [147], overview of the performance of the SMEs in Nigeria shows that past policies made limited impact on the Micro enterprises sector. Accordingly, [119] noted that SMEs account 70% of the total industrial employment in Nigeria, but contributed only 10 to 15 percent of the total manufacturing output. In this guards that the small and Medium Enterprises Development Agency of Nigeria (SMEDAN) act of 2003 was established to promote the development of Micro, small and Medium Enterprises (MSME) [80]. Its functions are to stimulate, monitor and co-ordinate development of MSME sector, to initiate and articulate policy ideas for MSME growth, to promote and facilitate development programmes, instrument and support services to accelerate development and modernization, poverty reduction and Job creation and enhanced sustainable livelihood, link MSME to internal and external service of finance, technology and technical skills, among others. Hence, the microfinance policy regulatory and supervisory framework was launched in December, 2005 to align its objectives.

2.2.1 The Nature and Scope of Microfinance Banks on Small and Medium Scale Enterprises in Nigeria

Prior to the era of policy recovery in MFIs, microfinance has been one of the impressive achievements in the less developed countries and is extensively acknowledged as an immediate and continuous way out in easing small and medium scale enterprises [112]. The nature of microfinance in Nigeria is the distribution of loans that are not much to small firms which should be repaid within a brief time phase [26], [66] and more often than not utilized by persons and families with little earning and who have a small number of properties than can be used as securities [26]. The modern microfinance in Nigeria began as non-profit institutions initiated strategies to address SMEs. Over the years, a significant number of NGOs complemented government efforts in microfinance by adopting the extension of microcredit as part of their mandates. The Country Women Association of Nigeria (COWAN) for example established a combination of traditional thrift and credit system known as African Traditional Responsive Bank (ATRB). The Nsakka United Self-Help Organization (NUSHO) in the early 1980s, through its savings and credit scheme, organized training/workshop and programmes on credit management for beneficiaries and staff on a yearly basis. An institution named lift above poverty organization (LAPO) was founded in the late 1980s to provide rural credit plus programmes [111].

Specifically, those micro credit facilities supported by the Federal Government of Nigeria, took on the conventional method of supply-led financial supported credit, mostly concentrating on agro processing, blacksmithing, transportation and hair dressing, According to Central Bank of Nigeria (CBN) article in 2005, these services gave an increases in credit expenditure and gain in agricultural production and other activities, however, this was short-lived as the natures of the programmes were unsustainable [102] from the 1980's to date. Non-government organizations (NGOs) have become apparent in Nigeria to support the foundations of the micro and rural business persons [68]. Hence, the practice of microfinance in Nigeria is rooted in its culture and dates back several centuries. These sets of informal microfinance institutions provide savings and credit loans to its members which are structured like solidarity loans. In a bid to meet social funding and articulate combine status, self-reliance and enforce trade. Most buoyant and status friendly members of the community enrolled as a standby surety for the endorsement and procurement of the informal loan [65], [80].

Osunde and [11] emphases that the family Unit, a component of the informal sector in Nigeria, is strong and people frequently rely on their family's support when other avenues fail. [82] therefore supports that before the emergence of former microfinance institutions, informal microfinance activities flourished all over the country and that furthermore it entails traditional informal practices such as local money lending rotating credits and savings practice, credit from friends and relatives, government owned institutional arrangements poverty reduction programme, etcetera. The informal microfinance scheme includes savings clubs/pools, Esusu, Ajo and Money Lenders. Where, Esusu is the most popular informal microfinance scheme in Nigeria. However, as an industry evolved in all the third world countries, microfinance became widely recognized as improving income levels of low income community. This is essentials were to improve their well-being during 1970s and 1980s. The micro enterprise movement led to the emergence of non-governmental organizations (NGO) that provided small loans for the poor, savings and loans cooperatives, credit unions, government banks, commercial banks or non-banking financial institutions. The largest groups of MFIs are self-employed low income entrepreneurs who are traders, seam-stresses, street vendors, small farmers, hairdressers, rickshaw drivers, artisans, blacksmith e.t.c [81] [152].

Moreover, they exist in the form of sole proprietorship and partnership though some could be registered as limited liability companies, management structure is simple thus decision-making is easy. Ownership and management fuse together in one person or few individuals, Relationship between employer and employees is largely informal, they operate in many areas of economic activities e.g manufacturing, transportation, communication etc, majority is labour intensive, requiring more human per capital per unit of production, the technologies are always very simple, limited access to financial capital i.e, suffer from inadequacy of collateral, they makes greater use of local raw materials and they enjoy wide dispersal throughout the country providing a variety of goods and services [70].

On this backdrop, that the country has the Rural Banking Programme (RBP), Sectorial Allocation of Credits (SAC), the Agricultural Credit Guarantee Scheme (ACGS), the Nigerian Agricultural and cooperative Bank (NACB), National Directorate of Employment (NDE), Nigerian Agriculturial Insurance Corporation (NAIC), the People Bank of Nigeria (PBN), Community Banks (1990-2007), the Family Economic Advancement Programme (FEAP), and the National Poverty Eradication Programme (NAPEP), Better life for Rural Dwellers (Later named family Support Programs), the Directorate of Food, Roads and Rural Infrastructure (DFRRI) which were pursued during 1986 to 1999. Other institutions that have also attempted purveying microcredit were the rural banking scheme (1977-1990) people's Bank (1987-1990) [[31]. Shortfall and incompetency in the operational performance and success of the people bank and FEAP was adduced as the reason for which FEAP and PBN was later merged to update NACB to the status of the Nigeria Agricultural Cooperative and Rural Development Bank Limited (NACRDB). Consequently, the microfinance policy framework that was launched in 2005, the erstwhile community Banks that met the requirement of increasing their capital based to N 20 million by the end year (31st December, 2007) were converted into microfinance Banks [64], [88].

The objective is to make it possible for the rural poor of the Nigeria Society to access agricultural loans with ease. However, the successes of these pragramme have been minimal [20], [21], [94]. In Nigeria today, there is a vast array of over 800 microfinance Banks which include first Unit Microfinance Banks which is authorized to operate in one location with a minimum paid up capital of N20 million. It's prohibited from having branches and cash centres outside the Units. Secondly State Microfinance Banks, this State owed microfinance is authorized also by operate in one State or Federal Capital Territory (FCT) and required to have minimum paid up capital of N 100 million allowed to open branches within the same jurisdiction or FCT subject to prior written approval from the CBN for each new branch. However for a State Microfinance Bank to become a National Microfinance Bank, it needs to have at least 5 branches spread across local government Area in the State [92]. Finally, the National owned Microfinance Banks was authorized to operate in more than one State or FCT and required to have minimum paid up Capital of N 2 billion Naira. If is allowed to open branches Nationwide and FCT with written prior approval too from the CBN. These MFBs are collectively much smaller than the Banks with a total lending portfolio of N 53 billion to the sector [47]. Accordingly, regulations by the Central Bank of Nigeria (CBN) required MFBs to lend at least 80% (percent) of their loan portfolio to micro enterprises [138].

Ebimobowei, et al (2012) submits that Microfinance is the provision of financial services to poor, very poor self-employed people and law income households without access to formal financial institutions. In their words [13] agreed that Microfinance simply meant the provision of very small loans (microcredit) to the poor to help them engage in new productive business activities and/or to grow/expand existing one. In their view, an emphasis was laid on the premises that microfinance has come to include a broader range of services. These include mainly credit, savings opportunities insurance and money transfers, as practitioners came to realize that the poor, who lacked access to traditional formal financial institutions, needed and required a variety of financial products to achieve meaningful improvement in their business activities. Governments also attempt to promote and improved access to credit through strict directive which either make credit more affordable through interest rate caps or available to targeted group through directed lending. Hence, these initiatives tend to be distortionary and according to [47] if widely applied can undermine the ability of the financial sector to conduct risk-based financial Intermediation. It noted that exemptions to specific regulations to encourage specific activities such as reduced reserve requirements for an amount equal to SMEs lending volume by a Bank have also sometime been adopted.

[126] defined microfinance as a provision of financial services to low income, poor and very poor elf-employed people. These financial services according to him generally include savings and credit but can also include other financial services such as insurance and payment services. [39], [107] presumed that microfinance that is well implemented play important role in modern society, as it provides micro credit loans to small and medium scale farmers and enterprises. [93] [39] further explained that it reduces poverty, growth level and creates an enabling environment for social and political tranquillity because microfinance lending when properly managed benefits the poor rural farmers, small and medium scale enterprises, artisans and etcetera. However, thus, it helps to aid economic growth of its beneficiaries and their society through poverty reduction. Microfinance programmes that are well channeled help to improve economy, so, if the principles and ethics of microfinance banking are followed down with its implementations in Nigeria. The Nigerian economy will grow and the poverty profile of Nigeria active low income earners would reduce drastically [93].

Accordingly, [115] articulates that microfinance is in the provision of loans, savings and other financial services to low income and poor people for use in small businesses. According to [113], [46] microfinance includes such services as micro credit provision, micro savings and other deposit investment, micro-insurance, micro leasing and payment services. [113] went further to state that microfinance adopts the credit plus approach. It focuses was not only on the provision of credit to the poor, it also includes integrating credit with other developmental activities such as community organizing and financial management. On their parts, [106] said though, poverty reduction and meeting low income (SMEs) needs have been a high priority for the government of Nigeria, microfinance is still an experimental tool in its overall strategies. The Federal Government of Nigeria has over the year demonstrated strong commitment to the provision of financial services and economic empowerment of the poor and low income groups. Hence the critical role of finance in the realization of the goals motivated the Government, in collaboration with the CBN to formulate the financial system strategy (FSS) 2020 in 2007 as a part of an overall National vision, which aims to make Nigeria one of the 20 largest economics in the world by 2020.

In this regards that the United Nations (UN) acknowledges their mandates in the area of microfinance which primarily lie in the area of technical assistance and demonstration of models that contribute effectively to poverty allocation, Report of United Nations, 1995; 2006. Accordingly, without finance, SMEs cannot acquire or absorb new technology nor can they expand to compete in global markets or even strike business linkages with larger firms. Microfinance banks are being used in every community now to achieve Millennium Development Goals (MDGs). However, [43] ranted that the availability of sustainable financial services helps owners of micro enterprises to grow, finance income, accumulate assets and reduce their vulnerability to external shocks. Access to financial services on the other hand enables poor households to transform from every day for survival to planning for the future, and investing in better nutrition for their children's welfare and empowering women economically and socially. On this note, Government in the past initiated a number of publicly financed Micro/Rural Credit Programs and Policies targeted at the poor and low income earners [101].

Most of the formal institutions that purvey credit to the poor had not been successful. The reasons adduced for their failure had been limited knowledge of the poor and no closer relationship between the formal institutions and the informal institutions. The framework for linking informal savings collectors to the formal institutions is a welcomed development, the Banks' readiness to acquire more information about the informal sector and courage the successful turnaround of micro-credit programmes in Nigeria. An example were the merger of the Nigerian Agricultural and Cooperative Bank (NACB), People Bank of Nigeria and Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB) in 2001 [115]. Globally, micro, small and medium enterprises (MSMEs) are known to contribute to poverty alleviation through their employment generating potentials. In Nigeria however, the employment generation potentials of small businesses have been seriously constrained by lack of access to finance, either to start, expand or modernize their present scope of economic activities. Hence, delivering on employment generation and poverty alleviation by MSMEs would also require multiple channels of financial services, which an improved microfinance framework should provide [28].

2.2.2 Nature and Scope of Small and Medium Scale Enterprises Development in Nigeria

[31] defines SMEs as an enterprises whose annual turnover ranges between N 25, 000 to N 50, 000. Chukwemeke (2004), defines small scale business as one whose total asset in capital, equipment, plant and working capital are less than N250, 000 and employing fewer than 50 full time workers. [105], [[154] defined SMEs as one who has a minimum of 5 employees with minimum capital outlay of not less than N5, 000. The issues of sustainable growth and development of Small and Medium Enterprises is a huge concern in the third world countries. The seemingly policy idea was to diversify Nigeria economy sub-sector and create more robust financing options so as to alleviate subsistence sufferings, poverty, unemployment, boost income and ensuring sustainable active entrepreneur and development of SMEs. In a bid to accelerate SMEs growth and ensuring that the least team population is gainfully employed and painstakingly the selected ones initiated entrepreneurial development schemes.

[51] has noted that believe of such policy makers and decisions will inculcate entrepreneurial spirit in the mind of people so as to prepare them for wealth creation through small scale enterprises. SMEs are generally distinguished by the nature of their production and management arrangements, trading relations, financial practices, internal competence; e.t.c. [31] defines small-scale business as an enterprise whose annual turnover ranges between N25, 000-N50, 000. SMEs have been recognized by government and development experts as the main engine of economic growth and a major factor by extension in promoting the realization of the financial systems strategy 2020. This because the development of this sub-sector is an essential element in the growth strategy, not only in contributing improved standard of living, they also bring substantial local capital formation and achieve high level of productivity capacity [48].

Typically, the following features in varying degree characterize SMEs in Nigeria. Small units often rural-based and family-owned, small independent enterprises, standing alone and producing for a well-defined market specialized firm, producing specialized products, selling to the international and/or local markets, rely on low cost of raw materials, low energy costs, low labour costs, low division of labour, flexible and often small production runs, low capital formation and largely labour intensive units with low-level technologies [103]. SMEs exists in the form of sole proprietorship and partnership, though some could be registered as limited liability companies, management structure is simple thus decision-making is easy. However, ownership and management fuse together in one person or few individuals. SMEs operate in many areas of economic activities e.g manufacturing, transportation, communication, etc. relationship between employer and employees is largely informal, while majority are labour intensive, requiring more human per capital per unit of production. Its' usually make greater use of local raw materials and technologies involved are always very simple. They enjoy wide dispersal throughout the country providing a variety of goods and services, limited access to financial capital due to inadequacy of collateral are also involved.

On this context that in 1992, the National Council on Industry streamlined the various definition of SMEs in order to remove ambiguities and agreed to revise them every four years. Hence, small scale enterprises were defined as those with fixed assets about N 1 million but not exceeding N 10 million Naira, excluding land but including working capital, while medium scale enterprises are those with fixed assets, excluding card but including working capital, of over N10 million but not exceeding N40 million. The definitions were revised in 1996 with small scale industry defined as those with total cost, including working capital but excluding cost of land above N1million but not exceeding N 40 million with a labour size of between 11 and 35 workers while medium scale industry was defined as to those with total cost, including working capital but excluding cost of land, above N40 million but not exceeding N150 million with a labour size of between 36 and 100 workers [6].

On this backdrop that the small and medium scale enterprises Development Agency (SMEDAN) was established in 2003 to coordinate, promote and facilitate the growth and development of MSMEs. The institution becomes operational in 2005. SMEDAN receives funding from the Federal Ministry of Trade and Investment, BOI and NERFUND. SMEDAN has over 300 employees in the entire country and is not financial or legally empowered to create interventions, but plays an advisory and facilitating role such as delivery demand side capacity building for MSMEs, Assisting in drafting MSMs laws, promoting MSME cooperatives, collecting information from a national survey of MSMEs, developing a ratings agency for MFBs, reworking and managing 23 of the Industrial Development Centres (IDCs) [156]. SMEDAN's primary focus is on demand side capacity building of entrepreneurs, through 15 Business Support Centres (BSCs) and 37 Business Information Centres (BICs). In April 2010, the small and medium enterprise credit guarantee scheme SMECGs was launched as a guarantee scheme available to participating banks (DMBs) and (MFBs) in Nigeria for guaranteeing lending to SMEs. The fund is N200 billion in sizes for the scheme. It is the responsibility of the SME to notify the participating banks that they wish to utilize SMECGs to cover the loan after which the participating bank makes the application to the CBN on their behalf. It is up to the participating bank to advertise the scheme to borrowers. Hence the SMEs are defined as it contained in the national definitions [122].

However, the CBN wholly funds the Scheme and is the managing agent and responsible for the day to day administration of SMECGs. The CBN has authority to monitor the projects. The modalities for participating banks are that maximum loan size distributed will be N 100 million and maximum loan tenure will be 7 years and/or a working capital facility of one year with provision for rollover. The turnaround time is stipulated to be no more than 60days. The participating banks' lending rate is the prime lending rate. Every loan must be collateralized with adequate collateral that is both realizable and acceptable to the participating Banks, as stated in the guidelines. The CBN has committed that the guarantee will cover 80% (percent) of the principal and interest. The guarantee will be executed as the point of loan disbursement and can be redeemed once the loan has been declared as a non-performing loan (NPL). Accordingly, [146, [137] defined SMEs as any enterprises with a Maximum Assets-Based of N200 million excluding land and working capital and with a number of staff employed not less than 10 or more than 300.

Below is the table classifying SMEs based on Employment and Asset classes?

Table 1

Employment-Based Classification				
	Organizations	Micro Enterprises	Small Enterprises	Medium Enterprises
1	International Finance Corporation (IFC)	Nil	10 to 15	50 to 100
2	Central Bank of Nigeria (CBN)	Nil	Less than 50	Less than 100
3	National Association of Small Scale Industry (NASSI)	Nil	Less than 40	Nil
4	Accenture	Nil	Less than 50	Less than 500

Source: International Finance Corporation Publication, 2001 (11)

Table 2

Asset-Based (excluding Real Estate) Classification				
	Organizations	Micro Enterprises	Small Enterprises	Medium Enterprises
1	International Finance Corporation (IFC)	Nil	Less than $2.5 million	Nil
2	Central Bank of Nigeria (CBN)	Nil	Less than N1.0 Million	Less than N 150
3	National Association of Small Scale Industry (NASSI)	Nil	Less than N40 Million	Nil
4	Federal Ministry of Industry (FMI)	Nil	Less than N 50 Million	Less than N200 Million
5	National Economic Reconstruction Fund (NERFUNF)	Nil	Less than N 10 Million	Nil

Source: International Finance Corporation Publication, 2001 (11)

2.2.2 Microfinance Banks loan contributions to Small and Medium Scale Enterprises in Nigeria

The contribution of microfinance Banks Loans on SMEs in Nigeria is huge and still becoming. This suffices not to say that major strides are yet to be made. Microfinance banks in Nigeria undertakes all baking and financial services provision that mega banks do but on small scale to small and medium scale entrepreneurs. They basically render services to the poor for poverty alleviation and also deal in business development and improvement of SMEs [153]. In their view, therefore, microfinance banks are used as traditional banking instrument to serve their customers. Statutorily, a micro finance bank is not allowed to lend more than N 500,000 to a single individual or business, but microfinance banks credit classification is more stringent than the mega banks. In their case, account can be classified losses if it stays indebtedness by a debtor for interest and capital for up to 365 days. Hence, microfinance loan if they remain for 90% (percent) days can be classified losses. Intermittently, micro bank operators opt for very short term liquid loans. [89] states that while microfinance has much potential, the main effects on poverty have been;

- Credit making a significant contribution to increasing incomes of the better-off poor, including women,
- Microfinance services contributing to the smoothing out of peaks and troughs in income and expenditure thereby enabling the poor to cope with unpredictable shock and emergences.

The contribution of micro, small and medium enterprises (MSMEs) to economic growth and sustainable development is widely acknowledged in developed and developing Economies (31]. Considerably, in Nigeria, microfinance loan is granted to the operators of micro-enterprises, such as peasant farmers, artisans, fisher-men, youths, women, senior citizens and non-salaried workers in the formal and informal sectors. The loans are usually unsecured, but typically granted on the basis of the applicant's character, and the combined cash flow of the business and household. However, the term of the loans is usually within 180 days which is 6 months. In a special case where the tenures are longer than six (6) months it would be treated as such. In case of agriculture, or projects with longer gestation period, a maximum tenure of 12 (twelve) months is permissible while in housing microfinance, a longer tenure of twenty-four months is permissible. Microfinance loans may also require joint and several guarantees of one or more persons. The repayment may be on a daily, weekly, bi-monthly, monthly basis or in accordance with amortization schedule in the loan contact [28].

Given the nature of microfinance loan sizes and customers, collateral registrations, financial statement of borrowers or evidence that those businesses are formally registered are not required. The restriction prohibiting a commercial bank for lending to someone who has co-signed or otherwise guaranteed a loan from the same bank shall not apply to group lending of an MFB. On this note, [3] deduced that the microfinance arrangement makes it possible for MSMEs to secure credit from microfinance Banks (MFBs) and other microfinance institutions (MFIs) on more easy terms. Disbursement and repayment are structure to suit credit needs and cash flow patterns of small business. The smallness of loans granted or savings collected, the absence of asset-based collateral and simplicity of operation are some of the attributes of microfinance to SMEs. Microfinance can help low income earners smooth consumption over periods of cyclical down turns or unexpected crises. It's a way of accessing small amount of credit at a reasonable interest rate which gives the economically active opportunity to set up their personal business. [160] opined that many studies have shown that SMEs people are trustworthy with the repayment of loans. They noted that microfinance banks help in providing services that sustain entrepreneurs in their self-employment and also assist in generating employment.

[118] added that though large commercial Banks in Nigeria are likely to be more transaction oriented while smaller microfinance Banks are more relationship focused. Banks offering relationship lending must delegate more lending authority to their loan officers than do Banks that focus on transactional lending and that small Banks (microfinance) are better able to resolve problems associated with delegating authority than large Banks in Nigeria. For instance, community Banks are better equipped to engage in relationship lending than large banks do. Thus that transactional Banking is generally associated with economics of scale because unit costs fall with increasing Bank size (Berger and Udell, 2002 cited in [118]. Accordingly, [67] highlighted that the term relationship lending refers to loans that require borrowers to establish a relationship with the lender before recording credit. Meanwhile relationship lending is important to small business and small banks and that small businesses concentrate their borrowing at financial institutions with which they have long-term relationship. In their quotes, [150] lamented that relationship can be mutually beneficial and that mutual benefits enable banks to collect information about the borrower's ability to repay and reduces their cost of providing credits.

Hence, this allows the borrowers better access to credit and cost of borrowing. Relationship loans however, require tighter, control and oversight over loan officers by senior management than do loans based on simple accounting and financial ratio. Since senior management of small banks can monitor lending decisions closely, they can authorize more non-standard relationship loans to small businesses. Microfinance banks loans had recorded increases in income and assets and decreases in vulnerability of microfinance clients. [89], [42] states that that while microfinance has much potential, because its ensure credit marking a significant contribution to increasing income of the better-off low income earners, including Women. A microfinance services are contributing to the smoothing out of peaks and troughs in income, and expenditure thereby enabling the poor low income earners to cope with unpredictable shocks and emergencies. The CBN study identified as of 2001, 160 registered microfinance institutions with aggregate savings worth N 99.4 million and outstanding credit of N 649.6 million, indicating huge because transactions in the sector ([19].

Microfinance services in Nigeria have adopted both the supply led and demand driven strategy of microfinance, as a result, the number of NGOs involved in microfinance activities has increased dramatically to 900. As some microfinance institutions in Nigeria are already doing, providing an attractive savings interest rate would encourage members to deposit their money in the Banks. The Nigerian CBN has proposed that all mainstream commercial banks save 10% (per cent) of the profit after tax annually into a small and medium scale enterprises equity investment scheme fund. This fund will then be utilized to provide financing to the microfinance institutions among other things, to assist the establishment of new, variable small and medium industries (SMI) projects, thereby stimulating economic growth, and development of local technology, promoting indigenous entrepreneurship and generating employment. However, timing of investment exit was fixed at minimum of three (3) years. By the excess of six billion naira, which then rose to over N13 billion and N 41.4 billion by the end of 2002 and 2005 respectively. This was but stood at N 48.2 billion by the end of December, 2008. As of the 2004 report from the central Bank of Nigeria (CBN), the fund meant for micro credit had not been utilized due to lack of an appropriate framework and confidence in the existing institutions that would have served the purpose [3], [50].

The evolution of microfinance in 2007 is to break the barricade to access capitals by low income individuals for development purposes. On this premises, governments of Nigeria focused on the area of credit delivery to the SMEs. Efforts in this direction include developing policies and creating institutions for mobilizing and deploying capital funds to SMEs. Interest rate was also barricaded so as to ensure level play for micro creditors. [147] emphasizes that the majority of the people engaged in SMEs are among the poor and low income groups in Nigeria and are found in the rural areas and that banking services were only available to about 49% (per cent) of the population in 2008, whereas more than 70% (percent) were left out by formal financial system in the same year. [111] observed that those MFIs have grown phenomenally, driven largely by expanding informal sector activities and the reluctance of commercial banks to fund emerging government supported cooperatives without collateral requirement and stringent registration processes which majority of the SMEs cannot fulfill. Today there are more than 7000 micro lending organizations providing loan to more than 25 million poor individual alike across the world, the vast majority are women. On this respect that the United Nations capital development fund (UNCDF) declared 2005 as the year of micro credit [7], [153].

2.2.3 Relevance of Microfinance Banks on Small and Medium Scale Enterprises Development in Nigeria

The relevance of microfinance banks on small and medium enterprises is bent on lifting the poor, low income earners, artisans, small business men and women from their current level of poverty or disarray to a level more stable, productive, self- sufficiency and development. [15] articulates that microfinance banks in Nigeria are guided by the microfinance regulatory policies and these guidelines provide an appropriate vehicle that would enhanced the utilization of the fund. No micro bankers may therefore, operate outside the dictates of this policy. In Nigeria microfinance banks render services to the poor in order to embark on SMEs or entrepreneur venture where the poor is defined as a person living with below the poverty line. The Small, Medium Enterprises are defined as persons doing business with less than N 1.5 million [153]. According to the duo, recent studies indicates that poor people in Nigeria number some 126 million or 90% (percent) of the population whilst those living below the poverty line are N 100,000 (One hundred thousand Naira only) as against N 200,000 (two hundred thousand Naira only) for Mega banks. However, microfinance progrommes target toward providing loans, savings and other financial services to low-income and poor people for use in small businesses. Microfinance is found all over the world in places such as African, Latin America and Asia. Informal microfinance systems predated the formal microfinance sector in Nigeria and remain in existence [119] and about 90% (percent) of Nigeria's businesses are considered micro enterprises and these farm or non-farm activities serve as the main income source for the majority of the labour force.

[29] reports that the total assets of Microfinance Banks increased from 75.5 billion in 2007 to 122.7 billion in 2008, representing an increase of 62.5% (percent), placements 26.25 billion. The major components of the total assets in 2008 were loans and advances 42.75 billion, placements 26.25 billion and balances with banks 17.16 billion, representing 34.8% percent, 21.4% (percent) and 14.2% (percent) respectively. [119] sited that the Assets of the microfinance banks were largely funded by deposit liabilities of 61.17 billion and shareholders' funds of 37.02 billion. In addition, a study done by Enhancing Financial Innovative and Access [47] revealed that 39.2 million adults in Nigeria were excluded from financial services. However, Nigeria Deposit Insurance Cooperation (NDIC), 2012 reports shown that total deposit mobilization created by the 596 (60%) percent microfinance banks (MFBs) which rendered their accounts at the end of March, 2011, was N 326. 85 billion. The bank that made their returns represented 60% (percent) of the total number of MFBs in operation according to the report. It further stressed that also the total loans credited by the banks were N 251. 96 billion an indication, that the microfinance subsector in Nigeria was being patronized. On that basis, microfinance banks are relevance to the development of entrepreneurship activities in Nigeria. Microfinance enables people to have access to cheap capital acquisition for small and medium scale enterprises development. It has affected entrepreneurship in Nigeria positively.

However, microfinance banks also concentrate in providing small loans, collateral-free loans, loans for entrepreneurial activity, group lending, market-level interest rates, focus on poor clients, simple application process, provision of services in underserved communities, focus on female client e.t.c. [5] pointed out that in Nigeria MFBs are unique financial institutions different from the conventional banks, and have unique features and characteristics that make them fall out of the definition of SMEs. Noted that some of the MFBs relevancies to the SMEs are that they are mainly unit banks serving only the operating area or location, their activities are highly restricted and they operate within the scope of the CBN's limitations, serving mainly all the group of poor but active, they provide financial services with or without security, that is character banking, a service not available in the conventional banks, therefore stressed that the main aim is to provide services to the stakeholders rather than exploiting customers to make profits with a view to expanding beyond Nigerian's boarders and that most of these banks are located in the rural areas, mainly to bring financial services to the people in order to benefit from the banking services.

Furthermore, microfinance banks are highly regulated in all aspect of their operations and fully supervised by the CBN. They submit regular, special returns and financial statements to CBN and other authorized agencies like the Nigeria Deposit Insurance Corporation (NDIC) and from which CBN can draw any financial reports that comply with requirements. Microfinance banks credits ensure that the poor, low income earners with across to credit can make investments in enterprises that could bring them out of poverty. The MFBs also set up their apex association known as National Association of Microfinance Banks (NAMBs) to create the platform for capacity building, generic product development and marketing as well as information/resource sharing and promoting best practices, among members. Microfinance is advocated as a solution to multiple social problems [106]. According to [62] as referenced in [14] supervened that microfinance banking is machineries for financial and economic emancipation as its growth is connected with the community in which it serves. The latent capacity of the poor for entrepreneurial advancement would be significantly enhanced through the provision of microfinance services to enable them engage in economic activities and be more self-reliant, increase employment opportunities, enhance household income and create wealth in the rural areas.

From the purview of the [90] establishment of microfinance banks has become imperative to serve the purpose of providing diversified, affordable and dependable financial services to the active poor, in a timely and competitive manner, that would enables them to undertake and develop long-term, sustainable entrepreneurial activities, mobilize savings for intermediation, create employment opportunities and increase the productivity of the active poor in the country, thereby increasing their individual household income and uplifting their standard of living, enhance organized, systematic and focused participation of the poor in the socio-economic development and resource allocation process, provide veritable avenues for the administration of the micro credit programmes of government and high net worth individuals on a non-recourse case basis. In particular, this policy ensures that state governments shall dedicate an amount of no less than 1% (percent) of their annual budgets for the on-lending activities of microfinance banks in favour of their residents and that render payment services, such as salaries, gratuities, and pensions for various tiers of government ([14].

[134] observes that the relevant of microfinance banks loan on small and medium enterprises helps to minimize dependence on imported materials. He positioned that new ideas and innovations are usually sorted locally as provided by small-scale enterprises through personal contributions to research and development. Thus, they are regarded as the bedrock of supply of promising enjoys government supports, they do not only encourage indigenous technology but also promote the establishment of import substitution industries. On the other hand, [130] confirmed that small scale enterprises are generally regarded as the key driver of economic growth and sustainable development as they promote Job creation and rural development. They are helpful in mitigating the rural-urban drift. In addition, small businesses promote industrial development through the utilization of local resources, production of intermediate products and transfer of rural technology [154].

[15] advances that microfinance banks in Nigeria undertake all banking and financial services that mega banks do, but on small scales.

The basic instruments used by MFBs include, traditional and enhanced savings accounts, current accounts, fixed deposits investment accounts, credit or lending products such as overdrafts, leases, term loans of various terms but mainly short tenured, trading loans, salary advances, LOP financing, e.t.c. Basically, the support services including financial advisory services, feasibility reporting particularly, for startup small and medium scale enterprises, financial training, micro insurances services, money transfers both locally and internationally in conjunction with their correspondence banks, micro pensions, capacity building, etc. The development objective of the microfinance banks generally include, to reduce poverty, empower women and more rural entrepreneurs, create employment, help existing business growth, grow or diversify their activities encourage the development of a new business [154]. The relevance of microfinance to entrepreneurial development made the CBN to adopt microfinance as the main sources of financial entrepreneurship in Nigeria. However, it tends realizing the importance of small businesses as engine for growth in the Nigeria economy by supporting the sector through MFBLs better the threshold of its perceive becoming unto her growth [131], [115].

2.2.4 The Role of Microfinance Banks Promoting Small and Medium Enterprises in Nigeria

Microfinance Banks in Nigeria has played most significance roles of mediating between SMEs and donors of Micro credits. It serves as channels by which soft loans are passed through to the poor, vulnerable, low income earners, artisans, entrepreneurs, etc. Microfinance Banks ensure that those policy guidelines are strictly adheres in dispensing grants and facilities for these groups as appropriate as possible. The role played by microfinance banks in ameliorating poverty, ensuring no barricade in access to micro credits, policies guidelines are followed, as well as entrepreneurial development which limits all setbacks on the acquisition of these SMEs loans in the country has been tremendously remarkable. Lending on SMEs has been the bedrock of most countries economic growth. SMEs as a backbone of accelerated growth in terms of its contributions to GDP in most economies like ours need being given keen attentions in other to achieve developmental goals. They help in [8] governmental and non-governmental donors to reach their end users. It promotes quality services by accepting savings, granting of savings, provision of advisory and mental services, advancing business ideas and businesses knowledge recycling. The CBN and other multinational foreign donors such as IMF, World Bank, UNESCO but to mention a few uses MFIs to articulate their goals, as well as reach their targeted audience through the countries collaborating agencies etc. MFB also played a vital role in area of policy directions, programmes implementations, as ensuring progress reports, awareness and donor supports mechanisms, outline are adheres with [116].

In Nigeria, credit has been recognized as an essential tool for promoting small and medium enterprises (SMEs). There is an increasing recognition of its pivotal role in employment generation, income redistribution and wealth creation (NISER, 2004 in [17]. The micro small and medium enterprises (MSMEs) represent about 87 % (percent) of the firms operating in Nigeria [157]. Non-farm micro, small and medium enterprises account for over 25% (percent) of total employment and 20% (percent) GDP for SMEDAN, 2007 compared to counties like Indonesia, Thailand, and India where micro, small and medium enterprises (MSMEs) contribute almost 40% (percent) of the GDP for IFC,2002. Accordingly, [45] establishes that microfinance institutions played crucial roles on economic growth and development, especially in their services for unserved or underserved markets to help meet development objectives which include to reduce poverty, create employment, help existing businesses to grow, diversify their activities, empower women and other disadvantaged groups and even encourage the growth of a new businesses. Microfinance Banks in Nigeria has played the role of mediating between SMEs and donors of micro credits.

Microfinance banks advances its course by ensuring that the facilities met for SMEs are not get loss or entered into wrong hands. It also involves in not just given short and long credits but develops programmes which tend promoting the scheme as contains other vices. Another of such roles is the CBN through its department of development finances has worked out different programmes to make low-interest loan available for key operator in the SMEs branches of the economy and in the agricultural value chain. One of such programmes is the improvement of band lending to the real sector. Emphatically, it must be noted that CBN also empowers small scale business enterprise through credit guarantee scheme (SMECGS) by provision of guarantee as well as training for providing entrepreneurs in specialized centres in different locations in the country. Its role is to promote access to credit by SMEs in Nigeria, setting pace for industrialization of the Nigerian Economy and to increase access to credit by promoting SMEs and manufacturers. MFIs plays an important role in project financing for SMEs [51].

In the world over, many donors institutions, agencies and organizations are on the interest of project financing for SMEs. These institutions such as the World Bank, Central Bank of Nigeria (CBN), African Development Bank (ADB), Money Deposit Bank (DMB), Microfinance Banks (MFB), UNESCO have diverse different programmes in that helping SMEs financing projects. Adigwe (2012) observed that African Development Bank group is to mobilize resources for economic and social development in African. This was one of such importance use of resources at its disposal for the financing of investment project and programme. Hence, that African development Bank (ADB) was establish on 4th August 1963 in Kartoum, Sudan after the meet of 23 political independent African State [158], [157].

ADB group is consists of;

1) African Development Bank (ADB)
2) African Development Fund (ADF)
3) Nigeria Trust Fund (NTF)

However they finance projects in Agricultural Industry, Transportation, Education and health etc. On it account was the establishment of National Economic Reconstruction and Fund (NERFUND) another Development programme. The Fund was established to give loans to small enterprises that fulfilled certain conditions through the participating commercial merchant and development Banks. The idea was to bridge the finance gap anticipated by small scale enterprises development in Nigeria so as to boost self-sufficiency and sustained industrial growth. Against this backdrop that this concept revealed other roles played by MFIs ameliorating small and medium scale enterprises as follows;

- **Small scale enterprises loan facility initiative-:** This initiative is designed to boost the performance of SMEs. The initiative is targeted at providing an alternative and more flexible source of long term kind of funds for advancing new SMEs, rehabilitating those one lacking behind etc. the facility suggest that to qualify as beneficiaries of the Small Medium Enterprises loan a solicitor must contribute a minimum of 25% of the investments capital cost in equity or internally generated resources.

- **Equipment leasing-**: Accordingly, equipment leasing was one of those midst at which Micro Credit facilities were extended to SMEs in Nigeria. This is so because MSMEs that cannot access conventional collateral, uses leasing method as a sources of credit via small independent financial and leasing companies. In their study [47] posits that these companies for the most part do not accept deposits and so their cost of funding is high and it estimated between 22-30% per annum. As such, MSMEs that utilize the equipment leasing options are usually forced to play high repayment installments on the equipment (on average between 20-50% of the value of the good). Despite these high costs, equipment leasing remains popular as MSMEs find it easier to leasing Equipment than obtain a formal loan due to the less stringent compliance requirements. However, in Nigeria there are over 250 companies including Banks using leasing as options.

- **The World Bank-**: The World Bank also plays a similar role in development of SMEs. Most notable ones was the 2004 fiscal year. A review of World Bank operations revealed that it invested sum of $ 1. 597 billion in SMEs with Africa receiving a sum of over $ 89 million share. [115] debunked that this sum was channeled through the four major development arms of the Bank:

(a) The International Corporation (IFC)
(b) The Multilateral Investment Guarantee Agency (MIGA)
(c) The International Bank for Reconstruction and Development (IBRD) and
(d) The International Development Association (IDA).

However, that Nigeria, Kenya and Uganda according to [40] benefited from part of the new joint programme executed by IFC and IDA for SME development in 2004 to the tune of $ 70 million. The 2004 annual review of the IFC's Small Business Activities indicate that the IFC and IDA began SME project development in Nigeria worth $ 32 million and in Kenya and Uganda, $ 22million and $16 million respectively in similar project.

- **The Commercial Agricultural Credit Scheme (CACS)-**: This is one of the significance role played in the development of SMEs in Nigeria. CACS is a capacity building programme which was launched in 2009 as a Joint collaboration between the CBN and the Federal Ministry of Agriculture and Water Resources. The aim of the scheme is to support finance for the Agricultural Production processing, storage and marketing. The scheme is financed with 7 year bond to the tune of N 200 billion and to be raised through debt management office. The scheme has been operated in two tranches with the first N 100 billion disbursed from May to December, 2009 and the second N 100 billion disbursed from February, 2010 while as at March, 2012, the CBN had released a total sum of N 175.5 billion for disbursement to 222 beneficiaries made up of 193 private promoters and 29 states Government. The loans are disbursed at a rate 9% per annum which the CBN subsidized both the rate and the administrative expenses of the scheme. However, the fund is only available to participating banks and state governments to finance agricultural enterprises. All DMBs are eligible to participate and are required to bear all credit risk for loans granted as well as access to stipulated maximum loan size of N 2 billion. Hence, each state government is eligible to borrow up to N 1 billion for on-lending to farmers' farmer's cooperatives societies. Eligible borrowers are corporate and large scale commercial farms and agro enterprises, medium scale commercial farms and agro-enterprises and also state government.

- **Second-tier Securities Market (SSM) and Fiscal Incentives:-** The second-tier securities market was established as an avenue for SMEs to raise long term funds through equity financing instead of depending on borrowed funds. On that note, certain conditions are stipulated for SMEs to benefits from this gesture. On the other hand, various fiscal incentives consisting of tax holidays under the pioneer industries scheme, accelerated depreciation, duty draw back scheme, duty exemption and tariff protection for the domestic market. These were directed essentially at industrial promotion of SMEs.
- **Bank of Industry (BOI):-** The role of the micro credit under this scheme is that Nigerian Bank for Commerce and Industry (NBCI) was established with the sole aim of assisting the SMEs in Entrepreneurial Development programme (EDP) as an addition to the aim of granting loan facilities to them. The Entrepreneurial Development Programme was founded on the recognition that mere fiscal and financial Incentives alone were not enough to accelerate the development of SMEs which encourage the idea that the operators of the enterprises should be exposed to EDP. The sole objective is creation of awareness, self-development and utilization of skilled people through the creation of employment generating industries. Developing existing SMEs as well as strengthening their operations by assisting Nigerian entrepreneurs in obtaining financial, technical and management support in other to enhance the development of their business

2.2.5 Global Perspective of Microfinance Banks on Small and Medium Enterprises

In the world over, countries have come to terms with the reality that microfinance serves as an effective tool for poverty alleviation through drafting and implementing policies, programmes, schemes and specifically, the establishment of microfinance institutions [40]. The history of micro financing can be traced to the middle of the 1800s. At this time, the theorist Lysander Spooner identified small credits to entrepreneur and farmers as a way of getting the people out of poverty. However, Friedrick Wilhelm Raiffeisen founded the first cooperative lending bank to support farmers in rural Germany in 1884. The modern use of the expression "Microfinancing" has roots in the 1970s, when organizations such as Grameen Bank. The microfinance revolution began when Bangladeshi Grameen Bank economist, professor Muhammad Yunus, a Nobel peace prize winner first handed over a few dollars to an impoverished basket weaver in 1974 [75], [1], [74]. According to [58] Grameen Bank of Bangladesh, which was founded by 2006 Nobel peace laureate, Dr. Muhammad Yunus, is the world's largest and most successful microfinance institutions that had served more than seven (7,000,000) million clients.

[2] confirms that the best known microfinance programs come from the Asian, Dr. Muhammad which began some years now, a microfinance program that stride among Women in Bangladesh in 1976, following the wide spread famine in 1974. Iterates that the idea of microfinance has now spread in Latin America, Eastern Europe, Asia, African and what have you. Consequently, the Grameen Bank experience of Bangladesh founded by Mohammed Yunus started with the group concept informal lending to the poor which the program has since been linked to formal micro credit model. The model had been quite successful as a bank for the poor and as a social movement based on principles of awareness and training, which has facilitated active participation of the poor. As at 1999, the Grameen Bank has provided its services to about 1.5 million poor, unified about 60,000 small village banks on the linkage process and about $ 480 million to its clients for small-scale trade. Moreover, non-Governmental Organization tends to adopt the Grameen principles, and is usually gender specific and sartorially motivated. There are Women groups, Farmers Unions, Traders Unions, etc. In different parts of Nigeria, a revolving loan scheme is practiced where members make fixed contributions of money at regular intervals to assist in financing their small-scale businesses. At each interval, one member collects the entire contributions of money from all [161], [126].

After the 1970s, the number of microfinance institutions around the world proliferated at a fast pace. In view of the dismal performance of the conventional finance sector, policy makers, practitioner and international organizational finance sector, policy makers, practitioners and international organization advocated micro financing as a tool for poverty reduction. Between the 1950s, and 1970s, governments and donors focused on providing agricultural credit to small and marginal farmers, in hopes of raising productivity and incomes. Meanwhile, starting in the 1970s, experimental programs in Bangladesh, Brazil, and a few other countries extended tiny loans to groups of poor women to invest in micro-businesses. This type of microenterprises credit was based on solidarity group lending in which every member of a group guaranteed the repayment of all members. These microenterprises lending programs had an almost exclusive focus on credit for income generating activities [160].

Microfinance in India started in the early 1980s with small efforts at forming informal Self Help Group (SHGs) to provide access to much-needed savings and credit services. From this small beginning, the microfinance sector has grown significantly over and above in the past decades. National bodies like the Small Industries Development Bank of India (SIDBI) and the National Bank for Agriculture and Rural Development (NABARD) are devoting significant time and financial resources to microfinance. The strength of the microfinance Organizations (MFOs) in India is in the diversity of approaches and forms that have evolved overtime. Indian microfinance Institutions are predominantly NOGs, i.e. nearly 80% (percent) of the microfinance institutions operate under the society/trust form which is for the not-for-profit sector with a clear development agenda. Apart from this, other important legal forms are being used by Indian microfinance institutions. 10% (percent) organizations operate under the company structure; 5% (percent) are section 25 companies (section 25 of the Indian companies Act, 1956); 2% (percent) as cooperatives; 2% (percent) as non-Banking finance companies (NBFCs); and 1% (percent) as local Area Banks (LAB). The organization structure of existing microfinance Institutions in India is given (http://www:nabard.or/microfinance/mf_institution.asp) Accessed on November, 28, 2014.

As non for profit microfinance Institutions are:

a) NGO-Microfinance Institutions-400 to 500-registered under societies Registration Act, 1860 or similar provincial Acts Indian trust Act, 1882, for mutual Benefit Microfinance Institutions.

b) Mutually Aided cooperative by State Government Societies (MACS) and similarly set up Institutions-200 to – 250 Registered under mutually Aided cooperative societies Act enacted by state Government

While as for profit microfinance Institutions are:

c) Non-Banking financial companies (NBFCs)-6*- Registered under Indian companies Act, 195b Reserve Bank of Indian Act, 1934. The number of for profit NBFCs operating in India as of 2008 was 2008 see (http://www:nabard.or/microfinance/mf_institution.asp)

Accordingly, [83] infers that global emphasis on microfinance has its impetus to the United Nations (UN) declaration of 2005 as the international year of microcredit. The declaration was against the backdrop of the general feeling that microfinance can make significant contributions to the achievement of the UN millennium Development Goals set in September, 2000. On this account Government and non-Governmental Organizations are equally supporting the sector through setting up microfinance agencies and capita lending avenues respectively. In addition, a number of development partners such as United Nations Development Program (UNDP), German Technical cooperation and Ford Foundation, among others, have been intervening by supporting the creation of appropriate environment for microfinance in Nigeria [30]. [59] acknowledges that African where the micro-credit crowded where movement of Microfinance spread in the 1980s, and where it became stronger in the 1990s is the poorest region in the world according to the new multidimensional poverty index developed by oxford University. Hence, the World Bank has recognized microfinance programme as an approach to address income inequalities and poverty.

[126] noted that the growing awareness of the potential of Microfinance in poverty reduction, economic growth and development coupled with the emergence of several highly successful and fast growth MFLs has effectively put the issue of microfinance on the political agenda of most developing countries. Furthermore, today there are more than seven (700) Million lending organizations providing loans to more than 25 Million poor individuals across the world, the vast majority of who are Women. The success of Grameen Bank Model in Bangladesh which offered loans to poor people through group collateral was emulated in many countries worldwide [49]. In their words, [60] saw that there is increasing reliance on microfinance as an instrument of poverty alleviation in Pakistan. [69] has commented on the relevance of microfinance in achieving the Millennium Development Goals (NDG) eradication of poverty and hunger, achieve universal education, promote gender equality and empower women; reduce Child mortality; improve maternal health; combat HIV/AIDs, Malaria and other diseases; ensuring environmental sustainability; and develop a global partnership for development [86].

Accordingly, [145] informed that microfinance is a key strategy in reaching the MDGs and in building global financial systems that meet the needs of the poorest people. According to United Nations Development Program, around 2.7 billion people are considered to be living in poverty. There people have a consumption level of less than 2 US Dollars per days that hence extreme poverty is defined as living in less than 1 US Dollars per day. Around 1.1 billion of the poor live in extreme poverty [85]. Various studies on microfinance and SMEs those directed to poverty reduction have recorded increases in income and assets, and decreases in vulnerable of microfinance clients. They refer to projects in India, Indonesia, Zimbabwe, Bangladesh, Ethiopia and Uganda which they said all shows very positive impacts of microfinance in reducing poverty. In the 1800s, credit union was developed by Friendrich Wilhelm Raiffeisen and his supporters to assist the rural population to break out of their dependence on moneylenders and to improve their welfare. From 1870, the Unions expanded rapidly over a large sector of the Rhine province and other regions of the German state. The cooperative movement quickly spread to other countries in Europe and North America, and eventually, supported by the cooperative movement in developed countries and donors.

In Indonesia, the Indonesian people's credit Banks (BPR) or the Bank Perkreditan Rakyat opened in 1895. The BPR became the largest microfinance system in Indonesia with close to nine thousand (9,000) units. In the early 1900s, various adaptations of these models began to appear in parts of rural Latin America. Accordingly, [44] infers that the promotion of small and medium scale enterprises (SMEs) was recognized by the government as a means of achieving not only rapid industrialization but also to make them competitive in a global economy.[8] observed that in some newly industrialized countries of Taiwan, Malaysia, North Korea and Singapore, SMEs have powerful effects not only on industrial production strategies but also on the export earnings: In fact SMEs constitute the production wheels for the larger scale enterprises of these countries. According to [97], it now reaches more than 100 million poor people all over the world through a combined portfolio of US $ 15 billion. In his words, the experience of Bangladesh where Grameen banking originated, Indonesia, Sri Lanka and many Latin American countries has been a testament to the critical role of microfinance in improving overall welfare of poor individuals.

Since 1999, the microfinance sector has rapidly grown in Madagascar with a portfolio of 143.7 billion Aviary in 2009 (US $ 71.8 million) against 22.7 billion in 2002. However, with less than 65,600 active borrowers in 2009, the microfinance coverage in Madagascar remains thin with only 14% (percent) of households covered by microcredit programmes [24], [54]. After a long recession from 1960 to 1995 during which per capital gross domestic product (GDP) and private consumption respectively fell by 36.8% (percent) and 46.8% (percent), Madagascar stated experiencing growth in 1996. Growth accelerated during the following years and picked up sharply during the period 1999-2003 excluding 2002, when there was a political crisis. Growth recovered after 2003, but was again put to a halt after the political turmoil of 2009. Credit market imperfections have been one of the structural constraints impeding transition since 1996. According to the latest estimates, only 35% (percent) of low income households (roughly 80% of the population) have access to depository services and 2% (percent) to credit [69].

[56] noted that this rapid progression has been strongly encouraged and sponsored by multilateral and bilateral aid donors whose support found expression at various occasions. During the microcredit summit which was held in 1997, the decision was taken by 137 countries to provide 100 million of the world's poorest families with credit and other financial services for self-employment activities by 2005. The United Nations Capital Development Fund declared 2005 as the year of micro credit. A year later, in 1998, the United Nations General Assembly designated the year 2005 as the international year of microcredit. During the 10th summit of heads of state and government of countries using French as a common Language which was held in Quagadougou in 2004, participants agreed to support microfinance institutions (MFIs) and to improve their integration in the developing financial sector.

[43] articulates that the improving condition of living in Bangladesh is a good example of how to develop with small loans. The south East Asian Nation was in mid-1970s branded a "basket case" by Henry Kissinger (the US secretary of state at the time) on accounts of the Nation's hopeless development prospects. Small loans are effective weapons for addressing mass poverty since most poor cannot afford any amount to expand or even initiate a small scale business. In the Philippines, jobs generated by microfinance activities since 2004 have reached 2.8 million while microfinance has reached 5.7 million individuals as of the end of December 2009 through the services of over five hundred (500) microfinance institutions. Total loan portfolio released by July 2004 to end 2009 has reached 160.5 billion. In the Philippines, the regulatory framework for microfinance clearly defined the respective roles of government entities involved in microfinance with the end in view of fostering more efficient and effective microfinance market. However, there is yet a need to explore existing or remaining challenges such as threat of policies reversal or potential of backsliding and implications for various types of stakeholders, including government, MFI's and clients, while preserving the traditional social objective of microfinance institutions of expanding access by the poor to financial services [97].

Accordingly, [97] exemplifies that Indonesia is termed to be the world's leader in terms of the micro credit supplied on a commercial basis, estimated to be more than 80% (percent) of the industry total. Across Asia, microfinance outreach is significant in Bangladesh and Indonesia, with about 12 million outstanding loans in each country at the end of 2001. Furthermore, that despite differences in the extent of and liberalization and the policy environment in which financial institutions are operating, the Philippines, Thailand, Indonesia, Vietnam and India were able to develop successful lending programs for the poor and marginalized farmers. In Nigeria, Government have continued to approach international financial agencies to sources needed foreign capital for the SMEs, such international agencies include the World Bank and its affiliates and the African Development Bank (ADB). The Federal Government often guarantees and agrees to monitor or co-finance the SMEs receiving such external financial support, for example, in 1988, the African Development Bank granted an export stimulation loan of US $ 252 million for SMEs in Nigeria. The loan is repayable in 20 years with a concessionary interest rate of 7.3% (percent).

In order to promote the establishment of a new generation of variable investments and services as well improve the quality and range of financial extension services available to SMEs, the Federal Government negotiated for a financial assistance package from the World Bank from 1987. The loan package was approved in 1989 and the SMEs Apex unit located in the CBN executed it. The local project cost was estimated at $ 418 million, including $ 264.4million (63%) in foreign exchange. The World Bank provided a loan of $270.0 million or 65% (percent) of the total project cost (100% of the foreign exchange requirements and 4% of local costs). The balance of $148million was to be financed by the beneficiary enterprises and the participating banks from their own resources. The participating banks are to bear the credit risk while the foreign exchange risk is to be borne by the Federal Government. The loan was subdivided into five components, namely, line of credit ($200 million), pilot financial restructuring ($20million), pilot mutualist credit guarantee scheme ($45 million), equipment leasing ($25 million) and other ($20 million). Pilot financial restructuring and pilot mutualist credit guarantee scheme which were cancelled and replaced with the urban mass transit scheme. Term loans provided under the programme have a maturity period of 15 years, including a grace period of 3years. The scheme also provided working capital to the beneficiaries with maturity period of 3 years and 1 year grace period[43], [44].

2.2.6 Challenges of Microfinance Banks on Small Medium Enterprises in Nigeria

The microfinance policy seeks to make financial services available on a sustainable basis to the economically active poor, low income earners and the micro, small and medium enterprises through privately owned banks (Microfinance Banks). It is to create a vibrant microfinance subsector that provides the necessary stimulus for national growth and economic development. According to [142], this has been relinquished substantively however notable researchers informed that a microfinance service does not reach the poorest of the poor. [62] on the other hand, inferred that the challenges faced by MFBs lending on SMEs especially in Africa is that SMEs can rarely meet the conditions set by MFIs which see SMEs as a risk because of poor guarantees and lack of information about their ability to repay loans. Moreso, poor management and accounting practices has also hampered the ability of smaller enterprises to raise finance. This is coupled with the fact that small business are mostly owned by individuals whose personal lifestyle may have far reaching effects on the operations and sustainability of such businesses.

As a consequence of the ownership structure, some of these businesses are unstable and may not guarantee returns in the long run. SMEs find it difficult to adjust to Government policies which help to streamline microfinance banks activities. The credit policy for the SMEs involves many practical difficulties arising from the operations of financial institutions and the economic characteristics and financing needs of low income households. [48] noted that inspite of the critical relevance of the SMEs towards the growth and development of the industrial sector, they still face a myriad of constraints that limit their growth and development, the most important of which is the problem of infrastructural facilities, constrained access to money and capital markets, shortage of skill, poor implementation of policies, as well as overbearing regulatory and operational environment which the government can handle and others peculiar to individual entrepreneurs such as financial indiscipline, poor management practices and low entrepreneurial skill, restricted market access and the likes. [126] articulated that interest rates in the microfinance banks are much higher than the prevailing rates in commercial banks and money lenders at informal sector charges interest rates of 100% which may have disadvantage SMEs from borrowing to improved status that instability of interest rates is also faced by microfinance bank in Nigeria.

In the face of competing needs for government resources, sufficient funds are not always available with which to grant the loan required by small and medium enterprises. Many SMEs lack the required technical, human and managerial expertise which threaten MFBs risky their limited funds in them. This is because they are most often unable to compete in hiring the services of highly skilled personnel who in turn contribute significantly to their business operations due to limited financial resources [44]. On his part, [148] agreed that the challenges of microfinance banks is that most of its funding goes to the commercial sector to the detriment of the more vital economic activities especially agricultural and manufacturing sector which provide the foundation for sustainable growth and development of the economy. Furthermore, iterated that this indicate only about 14.1 and 3.5 % of the total MFI funding respectively went to these sectors while, the bulk 78.4% funding only commerce. [129] opines that prior to CBN's interventions microfinance in Nigeria was taking a swift decline into the abyss. The sector was riddled with fraud and mismanagement of frauds. Some of the mismanagement may have been down to a lack of understanding of microfinance by the sector managers in some of the microfinance banks.

This assumption was corroborated by MFB's renting lavish offices, providing their senior personnel with salaries and benefits similar to those offered by larger commerce banks. [48] explained further that inadequate and inefficient infrastructural facilities which tend to escalate costs of operation as SMEs are forced to resort to private provision of utilities such as road, water, electricity, etc. incidence of multiplicity of regulatory agencies and taxes which has always resulted in high cost of doing business and poor management practices and low entrepreneurial skill arising from inadequate educational and technical background of many SMEs promoters. Weak demand for products arising from low and dwindling consumer purchasing power, lack of patronage for locally produced goods by those in authority, all resulting to restricted market access. Thus, however, that the Bureaucratic bottlenecks and inefficiency in the administration of incentives which discourage rather than promote SMEs growth. The challenges of microfinance banks lending on SMEs in the commercial banking institutions require that borrowers have a stable sources of income out of which principal and interest can be paid back according to agreed term.

However, the income of many self-employed households is not stable. A huge number of micro loans are needed to serve the poor, but banking institutions prefer dealing with big loans in small numbers to minimize administration expenses. They also look for collateral with clear title which many low income households do not have. Hence, bankers tend to consider low income households a bad risk, imposing exceedingly high information monitoring costs on operation [144]. Another challenge of MFB loan on SMEs adduced for their failure had been limited knowledge of the poor and no closer relationship between the formal institutions and the informal institutions. The framework for linking informal savings collectors to the formal institutions is a welcomed development. The banks readiness to acquire more informal about the informal sector and making serious efforts at strengthening group schemes encouraged the successful turnaround of microcredit programmmes in Nigeria. The challenges of building a sound commercial microfinance industry also include;

1) Inappropriate donor subsidies
2) Poor regulation and supervision of deposit talking microfinance industries (MFIs)
3) Few MFIs that meet the needs for savings, remittances or insurance
4) Limited management capacity in MFIs
5) Institutional Inefficiencies
6) Need for more dissemination and adoption of rural, agricultural and microfinance methodologies (Adrian and Richard, 2006 Referenced in [106].

Most prominent challenges microfinance currently faces in Nigeria is for the MFIs to reach a greater number of the poor. The CBN survey indicated that their client base was about 600,000 in 2001, and there were indications that they may not be above 1.5 million in 2003. The existing microfinance in Nigeria serves less than 1 million people out of 40 million potential people that need the services [31].

2.2.7 Prospects of Microfinance Banks on Small Medium Enterprises in Nigeria

The growing awareness of the potentials of microfinance in poverty reduction, economic growth and development coupled with the emergence of several highly successful and fact growing microfinance institutions, regulatory and supervisory framework for microfinance banks in Nigeria, and its attendance shift had effectively put the issue of microfinance on the political agenda of the most developing countries. In the world over, microfinance has done extremely well in the future of SMEs and microcredits beneficiaries. It's bridging the gap between the active low income earners and commercial institutions, informer banking institutions and former banking institutions. Though, writers, critics, opinion groups, academia and studies have soughted divergent views about microcredits prospects on SMEs. Apparently, it cumbersomcv eness advances for underlying future benefits. These are thus;

- **Compulsory Investment in Treasury Bill:-** The regulatory guidelines ensured that all MFBs are required to maintain not less than 5% (percent) of their deposit liabilities in treasury bills (TBs). This will boost and enable the finance has a base/stake for the foreseeable future development of its clients.

- **Liquidity Ratio:-** The operation of MFBs requires the maintenance of high level of liquid assets to meet frequent request for funds from clients and for field operations. All MFBs shall be required to maintain a minimum ratio of 20% (twenty percent) of their deposit liabilities including 5% (five percent) compulsory investment in the treasury bills in the liquid assets.
- **Capital Funds Adequacy:-** This discloses that an MFBs shall at all times maintain a minimum capital adequacy ratio as may be prescribed by the CBN from time to time. The capital base of a MFB to its risk- weighted asset exposure in accordance with the provisions which the CBN shall prescribe. The minimum capital Adequacy Ratio (Capital/Risk Weighted Assets Ratio) for each microfinance Institution shall be 10% (ten percent). Furthermore, a MFB is expected to maintain a ratio of not less than 1:10 between its shareholder fund unimpaired by losses and net credits. The CBN may require a MFB to maintain additional capital as it considers appropriate in respect of specific concentration of risks or market risks or connected lending. When any of the above ratios fall below the prescribe level, the MFB shall be prohibited from any or all of the following until the required ratio is restored:

i. Grant credits and undertakes further investment;
ii. Pay dividend to shareholders; and
iii. Borrow from the investing public
iv. Open branch/cash centre.

In addition, the MFB shall be required to submit within a specified period, a recapitalization plan acceptable to the CBN failure to comply with the above may constitute grounds for the revocation of the operating licence of the MFB or such other penalties as may be deemed appropriate. MFB are enjoined to ensure that their shareholders' funds do not fall below the required minimum paid up capital.

- **Maintenance of Capital Funds:-** MFBs are generally expected to pay less emphasis on collaterals in granting credits. The impact of delinquent risk assets, which may result in capital erosion, calls for stringent maintenance of capital funds. Every MFB shall therefore maintain a reserve fund into which shall be transferred out of its net profits for each year before it declares any taxes. The following amounts

i. Where the amount of the MFB's reserve fund is less than 50% (fifty percent) of its paid up capital, an amount which shall not be less than 50% (fifty percent) of the MFB's net profit for the year;

ii. Where the amount of the MFB's reverse fund is 50% (fifty percent) or more but less than 100 % (One hundred percent) of its paid up capital, an amount which shall not be less than 25% (Twenty-Five Percent) of the MFB's net profit for the year; or

iii. Where the amount of the MFB's reserve fund is equal to 100% (One hundred percent) or more of its paid up capital, an amount equal to 12.5% (twelve point five percent) of the MFB's net profit for the year.

A MFB shall not appropriate any sum or sums from the balance in its reserve fund unless prior approval in writing is obtained from the CBN for the purpose, which may be granted for such amount and subject to compliance with such conditions as the CBN may determine.

The CBN may from time to time, vary the proportion of net profit transferable to statutory reserves. No accreditation shall be made to the reserve fund until;

(i) All preliminary and pre-operational expenses have been written off;

(ii) Adequate provision has been made for loan loss/assets deterioration; and

(iii) All identifiable losses have been fully provided for

- **Maximum Equity Investment Holding Ratio:-** The aggregate value of the equity participation of a MFB in all permissible enterprises shall not exceed 7.5% (seven point five percent) of its shareholders fund unimpaired by losses without prior approval in writing by the CBN.
- **10.5 Limit of Lending to a Single Borrower and Related Party :-** The maximum loan by MFB to any individual borrower or director related borrowers shall not exceed 1% (one percent), while group borrower is restricted to a maximum of 5% of the MFB's shareholders' Fund unimpaired by losses or as may be prescribed by the CBN from time to time. In addition, aggregate insider related lending shall not exceed 5% (five percent) of the paid up capital of the MFB at any time. For this purpose, loans under staff scheme shall not apply, but shall be in accordance with the staff conditions of service. Any contravention will attract a penalty of N 1.0 million (One million Naira) on the MFB and a five of N 100, 000.00 (One hundred thousand Naira only) on the director/manager who fails to comply.
- **Restrictions on Declaration of Dividend:-** A MFB shall not declare or pay a dividend on its shares until it has;

(i) Completely written off all its preliminary and pre-operation expenses.

(ii) Made the required provisions for non-performing loans and other erosions in asset values.

(iii) Satisfied the minimum capital adequacy ratio requirement and met all matured obligations

(a) Where the payment of dividend would result in withdrawal of any part of the free reserve due to inadequacy of the profit for the year or where the statutory report of the auditors on the Annual accounts of the Bank is not satisfactory, the MFB may declare any dividend on its shares only after obtaining the prior approval of the CBN.

(b) Where a MFB declares or pays any dividend in contravention of this provision, every director and chief executive officer of the MFB shall be liable to pay to the CBN a penalty, the sum of which shall be determined by the CBN.

[104] admits that inspite of the problems faced, microfinance institutions and programmes hold a lot of prospects for the Nigerian economy amongst others are economic empowerment of low income earners, poverty reduction, Gains from international trade, Employment generations and rural development, skill development, new innovations, effective utilization of local resources, output expansion, etc. However, underscoring guidelines and regulatory framework also encourages the future development of the microfinance banks on SMEs in Nigeria.

2.3 EMPIRICAL REVIEW

Several empirical disclosures have been carried out to evaluate the impact of microfinance banks on small and medium scale enterprises in Nigeria. There seems to be a consensus from most of these studies that microfinance banks have impacted meaningfully on SMEs development as well as economic growth and these were justified in different views as follows. In a study conducted by [23] on the effects of microfinancing on micro and small enterprises (SMEs) in South West of Nigeria using Diagnostic test, Kaplan-Meier Estimate, Hazard Model and Multiple Regression Analysis. The study indicates that microfinance enhances survival of Small business in South West Nigeria, that microfinance does not enhance growth and expansion capacity of MSEs in Nigeria, the study revealed that microfinance impacts significantly on the level of productivity of MSEs operators in South West Nigeria and that the provision of non-financial service by microfinance institutions enhances the performance of micro and small enterprises (MSEs) in South West Nigeria.

In another development, [45] did a study on the place of microfinance in today's economy: further evidence from Nigeria. The study objective is to bring to the fore the place or importance of microfinance in the Nigeria by empirically assessing its impact on the economy using a quarterly time series data from 1992-2012. The study uses secondary data and OLS to capture the direction of causality between economic growth and microfinance bank operations, the Granger causality test was estimated. It was revealed that a microfinance bank operation (MFLA), microfinance loan and advance has positive impact on economic growth holding all other variables constant, the growth rate of the economy will increase on the average for every I unit increase in microfinance loan and advances (MFLA). Furthermore, the result indicates that microfinance bank is statistically significant in explaining economic in Nigeria. That is MFLA plays a vital role in the achievement of economic growth in Nigeria. Suberu, Aremu and Popoola (2011) were not left out, they studied the impact of microfinance institutions on the development of small scale enterprises in Nigeria using both primary and secondary data and it was found out that a positive and significant relationship exist between microfinance institutions loans and small scale performance. The study also revealed that there is a positive contribution of microfinance institutions loans toward promoting Small Scale enterprises market scheme, production effectiveness and competitiveness.

The study by [125] on the impact of microfinance banks on standard of living of hairdressers in Oshodi-Isolo Local Government Area (LGA) of Lagos state as a poverty eradication strategy among the society. A total of 120 hairdressers who registered with Oshodi-Isolo LGA were used as study sample. Primary data in the use of questionnaires analysis was adopted and spearman's rank correlation coefficient analysis was used for the techniques estimate. The objectives of the study examine how microfinance bank in Oshodi-Isolo has impacted greatly on the business of hairdressers in the local government and to also examine the impact of microfinance on assets acquisition and savings of hairdressers in the LGA. The study revealed that there is a significant relationship between microfinance bank efforts and standard of living of hairdressers in Oshodi-Isolo Local Government of Lagos State, and the implication of this is that due to the existence and help of microfinance bank, poverty has reduced a little bit among the hairdressers association in Oshodi-Isolo LGA. The duo recommended in their conclusions that Government at Local, State and Federal levels through the Central Bank of Nigeria ensure that microfinance Bank Loans are easily Obtainable and repayment and are included a grace period with reasonable schedule instead of weekly payment period that is commonly found among the microfinance Banks in Nigerian Economy.

[160] examined the effectiveness of microfinance banks in alleviation of poverty in Kwara State of Nigeria. The data collected were analyzed through the use of t-test analysis of variance (ANOVA). The study discovered that microfinance has significant role to play in the economy, as it helps reduce poverty by providing financial services to the active poor, helps in generating employment and also provide small loans to grow small businesses. They therefore agreed that microfinance policy should further be publicized so that members of low income groups will be aware of what microfinance institutions have to offer them and how they can obtain financial assistant/services to grow their small businesses. In similar study carried out by [87] on the role of microfinance Institutions in Entrepreneurship Development in District Gujrat, Pakistan. The study uses primary data from 150 sample populations, SPSS software to analyze the data and Chi-square test to investigate the association between banks and respondent's demographic characteristics.

The study randomly selected three microfinance banks; Tameer bank, Khushali bank and Kshaf bank. Non-parametric test as Kruskal-Wallis and Mann-Whitney tests were used for econometric analysis. The questionnaire consists of four major sections as, first section contains information of the respondents regarding their personal profiles, second section deals with business profile, third section inquires about the information regarding the facilities provided by the microfinance institutions to the clients and last section collected information regarding the amount of loan, type of entrepreneur training giving by organization to the clients. It was found out that on the location of respondents people have different purposes of taking loan from microfinance institutions such as for education, for social work, for marriage, for house building, for start a new business or finance their existing business. Furthermore, most of the clients take loan for the purpose other than to start a business, as 40% clients takes loan to start a business while 60% are those that access to microfinance to take loan to meet the other needs of life, that the microfinance institution loan acquisition, only 24 % clients hold a business and 76% are those who don't hold the business. So microfinance loan play a vital role in business most of the respondents, response is business as their major sources of income.

[143] studied the impact of microfinance on the development of small scale enterprises in the Ledzorkuku Krowor Municipality in the Greater Accra Region of Ghana, using descriptive statistics which involve simple percentage, graphical charts and profitability ratio revealed in the study that there is significant number of the SMEs has the knowledge of the existence of MFIs and some acknowledge positive institutions should at all-time give professional advices to SMEs since proper professional advice will inform the lending microfinance institutions whether the amount the SMEs requested for is too much for the project or less. A study

by Wooldridge on the effect of microfinance operations in poor rural households for estimating the average treatment effects as cited in [22] reviews that four possible treatment variables can be used to assess the impact of microfinance on household welfare as (a) Availed program loan; (b). Number of loan cycles; (c). Amount of loans (cumulative total amount of loans) availed of; (d). Number of Months the program is available to the village. They noted that the length of exposure to the program is also expected to have an impact. However that those treatment variables (ii) and (iv) are deemed to represent program availability better which have different implications for estimation. The study noted perhaps that only the first two satisfy the ignorability of treatment condition for treatment variables while (iii) and (iv) would fail the ignorability condition and would thus require instrumental variable estimation.

The study considered several outcome variables such as (i) basic household welfare measures as per capita income, per capita expenditures, per capita savings, and food expenditures; (ii) other financial transactions such as other loans and personal savings stocks; (iii) household enterprises and employment; (v) household assets such as land, farm equipment, livestock and poultry, and household appliances; (v) human capital investments such as education and health. Some of these variables are continuous such as per capita income, expenditure, savings, food expenditure, health expenditure per capita, and education expenditure per attending child. Others are binary such as having a savings account and availing of other loans. Others are truncated such as value of household assets and other loans. Others are count variables such as the number of other loans, number of enterprises, and the number employed in those enterprises. Finally, others are proportional such as the proportion of school-age children attending school or the proportion of those who are sick to have sought treatment. However, each of these dependent variables is treated using different estimation methodologies.

According to the study another important impact of microfinance relates to the enterprises of the respondent households. The survey asked participants questions about their enterprises and employment in these enterprises. In another development, [123] did a study on empirical study of the impact of microfinance Bank on small and medium Growth in Nigeria. The study uses a pilot test which took the form of test-retest method for Pearson correlation coefficient and Multiple Regression Analysis. 82 SMEs operators that constituted sample size from the entire SMEs with specific to Ibadan metropolis of Oyo State. It was found out that an increase in loan disbursement and loan duration lead to increase in SMEs growth while the relationship between interest rate, loan payment, collateral security and SMEs growth is negative and significant. This implies that the higher the interest charges, frequency of loan repayment and collateral demanded the lower the expansion of SMEs in Nigeria. Furthermore, the loan disbursement is a key for expansion of SMEs in Nigeria, meaning that microfinance loans contribute 98% (percent) to the expansion capacity of SMEs in Nigeria. Therefore, a unit increase in loan will increase SMEs growth by 45.6% while as frequent as repayment order increases, SMEs growth will decrease by 44%.

A study conducted by [62] on the impact of microfinance on small and medium-size enterprises in Nigeria. The study employed simple random sampling technique in selecting the 100 SMEs that constituted the sample size of the research structured questionnaire was designed to facilitate the acquisition of relevant data uses for analysis. Descriptive statistics which involves simple percentage graphical charts and illustrations was tactically applied in data presentations and analysis. It, therefore, revealed that significant number of the SMEs benefitted from the MFLs loans even though only few of them were capable enough to secure the required amount needed. However, majority of the SMEs acknowledge positive contributions of MFI loans towards promoting their market share, product innovation achieving market excellence and the overall economic company competitive advantage other than tax incentives and financial supports, it is recommended that government should try to provide sufficient infrastructural facilities such as electricity, good road networks and training institution to support SMEs in Nigeria and furthermore, concluded that it has been unveiled that government policies and programs designed to develop SMEs in Nigeria are ineffective and thereby need to be re-conceptualized.

On their part, [130] did a study on determinants of microfinance outreach in South-Western Nigeria: An Empirical analysis. The objectives were to identify and examine the determinants of the outreach capability and the trend of outreach of microfinance institutions in South-Western of Nigeria. The study employed secondly data from total population of 161 microfinance institutions made up of 140 and 21 MFI in Lagos and Ondo States for a period of six years from 2005-2010. Yearly microfinance level data was extracted from the portfolio and savings registers, balance sheet and income statement of individual microfinance institution using descriptive and econometric analysis of the Least Squares Method and purposive and stratified sampling techniques. It was found out that for outreach to be improved, a microfinance institution should concentrate on its average loan size as its major determinant. In addition, savings product, total assets, age of the microfinance institution, and ownership status were found to be both statistically insignificant and unimportant in terms of their contributions to the variations in outreach [52].

As a result these variables are not reflected in the outreach equation. The result shows that the real effective lending rate is negatively related with outreach and there has been an increase in the trends of outreach of the sampled microfinance institutions in South-Western Nigeria in the period under the study. It, therefore, recommended that the microfinance institutions need to strengthen their level of governance in order to expand outreach. Since sustainability is usually an outcome of a strong governance structure, as the microfinance institutions strengthen the governance structure to achieve the outreach objective, sustainability will be achieved simultaneously. However, microfinance institutions are encouraged to increase their outreach by providing relative small loans. The small loan sizes can reach more clients and therefore achieve a greater outreach.

3. METHODOLOGY

3.1 Introduction

This chapter deals with the methodology used in the research study. The chapter encapsulates sources of data, sampling techniques, methodology, model specification and justification.

3.2 Sources of Data

The data used in this study are secondary data and sourced from the Nigerian stock exchange publications and the Central Bank of Nigeria Statistical Bulletin (2015). It covers a period of 24 years (1992 to 2015). The choice of the period is predicated on the fact that the period is long enough to be able to capture the various impact of microfinance bank variables on SMEs in Nigeria. Also, the period witnessed the various reforms in both microfinance banks and SMEs in the country. Thus, it enables us to have a fair evaluation of the effect of microfinance bank on the SMEs in the short run and at the long run.

3.3 Sampling Techniques

The descriptions of the procedure use in selecting the sample and for the purpose of this study are of two types. The analytical techniques employ by the study are description techniques which suggests ratios based on the observations from the data collection and the statistical tools applied in analyzing the annual reports/financial statement in order to establish the association between the variables postulated in the hypothesis.

3.4 Research Design Method

The Study employs the co-integration econometric technique which helps to explain the short run dynamics and the long run (steady state) effects of microfinance banks on small and medium scale enterprises in Nigeria. The methodology was also used by [27] to examine stock market development and economic growth in Mauritius. However, because time series data are not usually stationary in their level form but in their first-order differences [101]. There is therefore the need to investigate the stationarity of variables in our model and whether or not there is any evidence of co-integration among the hypothesized variables. If the explanatory variables in their level forms are not stationary but their first difference are stationary and these variables are co-integrated with SMEs, then an Error Correction model (ECM) will be appropriate.

In this regard, the unit root tests are conducted to determine the stationarity of the data set. The test is necessary because non-stationary data produces spurious regression results. Testing for cointegration can be performed in a bivariate or multivariate framework. However, given that the present study considers more than one factors affecting SMEs performance, we restrict the discussion to the multivariate framework. A given series is said to be integrated of order d (denoted I(d)) if it attains stationarity after differencing d times. If the series is I(1), it is deemed to have a unit root (Engel and Granger, 1987).

3.5 Model Specification

The model for this study follows a linear combination of some microfinance variables exerting some influence on small and medium scale enterprises. Thus, the model is specified in functional form as follows:

SMEs = f(MASSET, MDEP, MGE, MFLOAN) -------- (3.1)

However, the econometric form of the model is stated thus;

SMEs = $\beta 0$ + $\beta 1$ MASSET + $\beta 2$ MDEP + $\beta 3$ MGE + $\beta 4$ MFLOAN + Ut. - - - - - (3.2)

Where: SMEs = Small and Medium Scale Enterprises
MASSET = Microfinance Bank Assets
MDEP = Microfinance Bank Deposits
MGE = Microfinance Bank Gross Earnings
MFLOAN = Microfinance Bank Loans
Ut = s the error term

The a priori expectations in the model are $\beta 1, \beta 2, \beta 3, \beta 4 > 0$

3.6 Justification of Model

Our model estimation and methodology in use are consonant with the procedure adopted in [130] on Microfinance Bank as a Catalyst for Entrepreneurship Development in Nigeria: Evidence from Ogun State. Their assessment was to know the extent to which microfinance banks and their operations can impact entrepreneurship development in Nigeria. They however measured entrepreneurs with Number of employees created and profit earned by the use of multiple regression analyses as well as secondary data. The independent variables were specified as capital adequacy (CA), asset quality (AQ), earning and liquidity (ES). Where No of employee (EMP) = ao+b1CA+b2AQ+b3ES+b4LQ+μ while Profitability (PFT) = do+e1CA+e2AQ+e3ES+e4LQ+μ. This was also inconsequent with the works of Olawe et al. (2013) on empirical study of the impact of microfinance bank on small and medium growth in Nigeria. The work basically uses primary data to capture Small Business Growth (SBG) in entire Oyo State SMEs. The Study randomly selected 85 SMEs Operators as sample size and was regressed against the independence variables proxy by microfinance variables as capture in their work as Loan Disbursement (LDM), Loan Repayment (LRM), Interest Rate (IRR), Loan Duration (LDR), and Collateral Security (COS). The model is SBC = $\beta 0$ + $\beta 1$LDM + $\beta 2$IRR + $\beta 3$LDR + $\beta 4$LRM + $\beta 5$COS + μi.

4. DATA ANALYSIS AND PRESENTATION OF RESULTS

4.1 Introduction

In this section, we empirically estimate a model that helps explain the long run (steady state) effects of microfinance bank on small and medium scale enterprises in Nigeria, as well as the interim short term adjustments. However, because some recent studies on macroeconomic variables in Nigeria suggest time series data are not stationary in their level form but that their first-order differences are (Akinlo and Folorunso, 1999; Nwaobi, 2000), there is the need to investigate the stationarity of variables in our model and whether or not there is any evidence of co-integration between microfinance bank and small and medium scale enterprises variables. If the explanatory variables in their level forms are not stationary but there first differences are stationary and these variables are co-integrated, then an Error Correction Model (ECM) will be appropriate.

4.2 Unit Root Testing

The Augmented dickey Fuller (ADF) test is employed for the unit roots. The results are presented in levels and first difference. This enables us determine in, comparative terms, the unit root among the time series and also to obtain more robust results. Table 4.1 presents results of ADF test in levels without taking into consideration the trend in variables. The reason for this is that an explicit test of the trending pattern of the time series has not been carried out. In the result, the ADF test statistic for each of the variables is shown in the second column, while the ninety-five (95%) per cent critical ADF value is shown in the third column. The result indicates that all the variables have ADF values that are less than the ninety-five (95%) per cent critical ADF value of -2.9639 (in absolute values). The implication of this is that these time series are non-stationary in their levels.

Table 4.1 Unit Root Test for Variables in Levels

Variable	ADF Test Statistic	95% Critical ADF Value	Remark
SMEs	-0.567173	-3.029970	Non-stationary
MASSET	2.429760	-3.004861	Non-stationary
MDEP	-3.589913	-2.998064	Stationary
MGE	-2.908088	-3.004861	Non-stationary
MFLOAN	2.760540	-3.004861	Non-stationary

Source: **Author's Computation 2017.**

The result of the unit root test on these variables in first differences is reported in table 4.2 below. From the result, the ADF test statistic for each of the variables is greater than the ninety-five (95%) per cent critical ADF values (in absolute values). With these result, these variables are adjudged to be stationary. This implies that the variables are actually difference-stationary, attaining stationarity after the first differences of the variables. Thus, we would accept the hypothesis that the variables possess unit roots. Indeed, the variables are integrated of order one (i.e. I[1]).

Table 4.2 Unit Root Test for Variables in First Difference

Variable	ADF Test Statistic	95% Critical ADF Value	Remarks
Δ SMEs	-1.345430	-3.029970	Non-stationary
Δ MASSET	-4.904035	-3.769597	Stationary
Δ MDEP	-7.978576	-3.004861	Stationary
Δ MGE	-5.445266	-3.004861	Stationary
Δ MFLOAN	-4.164374	-3.004861	Stationary

Source: Author's Computation 2017.

4.3 Cointegration Analysis

Having established that the series in the analysis are not stationary in their levels, we move on to determine if they are cointegrated. The results from the multivariate cointegrationtest are presented in Table 4.3 below. This test employs the Johansen system cointegration method. As can be seen from Table 4.3, both the eigenvalue test (λ-max) and the trace test statistics indicate that there are more than one significant cointegrating vector between microfinance bank and small and medium scale enterprises. This implies that a long run relationship exists among these variables. Hence, the results of the cointegration tests are summarized in Table 4.3 below.

Table 4.3: Johansen Multivariate Cointegration Tests Results.

Trace Test Null Hypothesis				Maximum Eigenvalue Test			
Null Hypothesis	Test Statistic	Critical Value	Prob.	Null Hypothesis	Test Statistic	Critical Value	Prob.
r = 0*	148.3439	69.81889	0.0000	r = 0*	92.20656	33.87687	0.0000
r ≤ 1*	56.13739	47.85613	0.0069	r ≤ 1	25.09349	2	
r ≤ 2*	31.04390	29.79707	0.0358	r ≤ 2*	22.53348	2	
r ≤ 3	8.510417	15.49471	0.4125	r ≤ 3	8.354149	1	
r ≤ 4	0.156268	3.841466	0.6926	r ≤ 4	0.156268	3	

Source: Author's computations 2017.

4.4 The Error Correction Mechanism (ECM) (Short-Run Analysis)

The short-run dynamics of small and medium scale enterprises behaviour in the context of short term movements in microfinance bank variables in Nigeria is captured within an error correction model (ECM). The Autoregressive Distributed Lags (ARDL) approach is used for the ECM. The R-Bar squared criterion was used for the selection of the parsimonious equation.

The result of the estimated error correction representation for SMEs is presented in table 4.4 below. The result shows a very impressive diagnostic outcome for the model. The R-squared value of 0.95 is high and it indicates that over ninety-five (95%) per cent of the systematic variation in SMEs over the short term is explained by short term movements in the explanatory variables including the ECM. Thus, the model possesses a high predictive ability. The overall goodness of fit for the model is observed through the F-statistic. The F-value of 36.906 is high and easily passes the significance test at the 1 per cent level. Thus, we will accept the hypothesis of a significant linear relationship between SMEs and all the independent variables combined. Indeed, these variables combine to exert significant influence on the performance of small and medium scale enterprises (SMEs) in Nigeria.

In order to determine the individual roles of each of the variables in the pattern of stock market returns, attention is paid to the coefficients of each of the variables in terms of their signs and significance level. In the model, the result shows that the coefficients of MGE and MFLOAN do not possess the expected (positive) a priori sign. The coefficients of all the other explanatory variables have the expected a priori signs which are in line with the a priori determination in the specified model.

Table 4.4: Short Run Oil Price, Macroeconomic Variables and Stock Market Returns Relationship

Variable	Coefficient	T-Ratio	Prob.
C	1704.575	2.481360	0.0289
DMASSET	0.054815	1.762804	0.1034
DMDEP	0.004737	1.538211	0.1499
DMGE	-0.000832	-0.473079	0.6446
DMFLOAN	-0.183817	-2.626031	0.0221**
DSMES(-1)	0.886478	12.37924	0.0000*
ECM(-1)	-0.669450	-3.628221	0.0035*
R2 = 0.95	$\bar{R}$2 = 0.92	F = 36.906	D.W. = 2.08

Source: Author's computations 2017. Note: * at 1% level of sig, ** at 5% level of sig.

A close examination of the coefficients of the variables in terms of their significance level reveals that only the coefficient of microfinance loans (MFLOAN) is significantly different from zero at the 5 per cent significance level. This implies that short term movements in the performance of small and medium scale enterprises (SMEs) in Nigeria can only be effectively predicted by the level of microfinance loans to the sector. The negative sign is an indication that inspite of the huge amount of loans committed to the sub-sector, it has not really yielded the expected positive impact. Hence, the need for proper disbursement and utilization of loans for more productive ventures within the SMEs in Nigeria. This result strongly agrees with those of [101] who examined the determinants of growth in a sample of small and micro Finnish firms using a number of firm specific variables with lending characteristics. They observed that an increase in the number of lending banks decreases growth rates in the larger firms and that an increase in the number of banks operating in the country where the firm is located enhances growth of the larger firms and decreases growth rates of the smaller firms. The result also agrees with that of [23] in Nigeria who concluded that access to microfinance does not enhance growth of micro and small enterprises. But it however disagreed with the study of [27] who found strong evidence that access to external credit increases the growth of both employment and sales of small and medium scale enterprises.

All the other coefficients of MASSET, MDEP and MGE failed the significance test at the 5 percent level. Thus, the most important factors in SMEs performance in Nigeria are rather internal in nature. Of particular interest is the failure of the MASSET coefficient. This indicates that in the short run, the level of MASSET and activities has a rather weak positive effect on SMEs performance in Nigeria. The implication of this result is that, increases in the level and performance of SMEs is not necessarily caused by the size of microfinance banks in the country in the short run. This also goes to show that the total microfinance assets based in the country is rather too weak to fully support or provide any meaningful impact on the SMEs sector in Nigeria.

The coefficient of the lag variable of small and medium scale enterprises (SMEs) is significant at the 1% level, and with a value of 0.886478; indicating that the past values of SMEs have significant positive relationship with microfinance bank variables in the Nigeria than the current values. The coefficient of the error correction (ECM) term has the correct negative sign and is also significant at the 1 percent level. This goes to show that any short-term deviation of microfinance bank variables from equilibrium in the short-run can be restored in the long run. The slightly low value (-0.6694) of the error correction term means that adjustment to equilibrium in the long run is moderate. The ECM term shows that about 66 percent of long run adjustment to equilibrium is made during the first year. The DW statistic value of 2.0 shows that autocorrelation may not be a problem in the model. The implication of this is that the short-run estimates in the model above are reliable for structural analysis and policy directions.

4.5 The Long Run Relationship

The long run behaviour of SMEs in terms of microfinance bank variables may be analysed by the OLS estimation of the SMEs equation. The result has a very impressive goodness of fit information. The R squared value of the SMEs equation is about 0.99 percent showing that the explanatory variables in the model effectively tract the long run variations in the dependent variable. Even the adjusted R squared value of 0.99 is equally very high, indicating that the model possesses a good predictive ability. The F-values of 3105.937 is also high and significant at the 1 percent level. Thus, we cannot reject the hypothesis of a significant linear relationship between the dependent variable (SMEs) and all the respective independent variables (MASSET, MDEP, MGE and MFLOAN) combined.

Table 4.5: The Long Run Model

Variable	Coefficient	T-Rtaio	Prob
Constant	-9271.129	-1.800114	0.0934
LMASSET	0.111015	1.809326	0.0919
LMDEP	0.001373	0.229990	0.8214
LMGE	-0.001989	-0.839578	0.4153
LMFLOAN	-0.407613	-2.921454	0.0112
LSMES(-1)	1.116424	30.36238	0.0000
R2 = 0.999	$\bar{R}$2 = 0.998	F = 3105.937	D.W. = 1.57

Source: Author's computations 2017. Note: * at 1% level of sig, ** at 5% level of sig.

In particular, we focus attention on the individual coefficients of the explanatory variables. In the result, only the coefficients of MGE and MFLOAN do not possess the expected (positive) a priori sign. The coefficients of all the other explanatory variables have the expected a priori signs which are in line with the a priori determination in the specified model. This sign is also similar to the short run result.

In the same vein, only the coefficient of MFLOAN is significant at the 5 percent levels. This suggests that in the long run, this is the only variables that help to predict the level of SMEs performance in Nigeria. Indeed, the results have shown that a microfinance loan is veritable instruments for stimulating long run SMEs performance in the country. A sustained increase in microfinance loans to the SMEs sector will ensure a long run (steady state) improvement in SMEs activities. Surprisingly, the negative state of the result is an indication that MFLOAN has not really yielded the expected positive impact on SMEs. A unit increase in MFLOAN leads to a less than -0.407613 decrease in SMEs performance in the country. This finding however disagree with those of [151], [124], Osemene & Abdulraheem (2011), Aftab and Naveed (2013), [123], Christopher (2010) who found a strong positive relationship between microfinance bank loans and small and medium scale enterprises in Nigeria. One possible explanation for this result might be the short term nature of microfinance bank loans repayment period. It is observed that in Nigeria, the period of loan repayment is very short for clients and small businesses to utilize them for any meaningful venture for quick returns. Hence, there is the need to spread the loan repayment over a longer period or increase the moratorium. This will enable the microfinance clients to have greater use of the loan over a reasonable period for meaningful and profitable investment that will assure easy repayment and overall growth of enterprise.

The coefficient of MASSET has a pervasive impact on SMEs, while the other variables (MDEP, MGE) do not have any significant relationship with SMEs in Nigeria. This is rather unexpected because, ordinarily it is expected that the ability of microfinance banks to grant credits to SMEs at any point in time is a function of its assets base, total deposits or savings with the bank as well as earnings capacity. The implication of this is that both the microfinance assets base (MASSET), total deposits and gross earnings are not relevant factors to be considered in the determination of SMEs performance in Nigeria in the period under investigation. Hence, there is the urgent need for microfinance banks operators and relevant regulatory authorities to come up with necessary policy measure that will ensure that microfinance bank's assets base, deposits and gross earnings are improved upon in order to effectively support the growth of the SMEs sector in the country. This finding is also in line with those of [130] and [23] in Nigeria who found no significant relationship between microfinance bank assets, savings, deposits and SMEs. It however disagreed with the study of Caves (1998) and Eyiah and Cooks (2003) who found a positive relationship between firm size and growth.

5. SUMMARY AND CONCLUSION AND RECOMMENDATIONS

5.1 Summary and Conclusion

The role of microfinance banking in the growth and develop ment of small and medium scale enterprises has been recognized in the extant literature across the globe. This is true because, microfinance banks provide the closest link with micro, small and medium enterprises by providing them with the necessary funds needed for the day-to-day running of the enterprises. It has been severally argued by many scholars such as Carpenter (2001), [19] and Lawson (2007) that lack of access to finance has been identified as one of the major constraints to small business growth (. The reason is that provision of financial services is an important means for mobilizing resources for more productive use (Watson and Everett, 1999). The extent to which small enterprises could access fund determines their savings and investment capacity. Hence, in order this study examined this relationship in the Nigerian context using relevant microfinance bank's variables such as total assets, total deposits, gross earnings and loans as explanatory variables and SMEs as dependent variable. Using the cointegration and error correction model econometric technique on annual time series data for a period of 24 years (1992 to 2015), the empirical results reveal generally that microfinance bank loans has a significant negative relationship with small and medium scale enterprises in Nigeria in both the short run and at the long run. The other hypothesized variable in the model do not have any significant impact on SMEs.

5.2 Policy Recommendations

In view of the findings of this study, the following salient recommendations are made: Since, the result of the study indicates a significant negative relationship between SMEs and microfinance bank loans, there is the need to spread the loan repayment over a longer period or increase the moratorium. This will enable the microfinance clients to have greater use of the loan over a reasonable period for meaningful and profitable investment that will assure easy repayment and thus, impact more positively on the overall growth and development of small and medium scale enterprises in the country.

There is also the urgent need for microfinance banks' operators and relevant regulatory authorities to evolve a policy measure that will ensure that microfinance bank's assets base, deposits and gross earnings are improved upon in order to effectively support the growth of the SMEs sector in the country.

In addition, the government through its appropriate agencies should closely monitor the loan disbursement processes to ensure that loans are appropriately disbursed to the right firms for the right purposes. This will surely go a long way to avoid incidences of loan diversions occasioned by corruption and sharp bank practices by bank staff.

Finally, the Government should arise to its responsibility to the sector by providing the enabling environment for microfinance banks to strive and effectively support the SMEs performance through the provision of relevant infrastructural facilities such as security, modern bank's technology, telecommunication, electricity, water and efficient transportation system that will help to enhance the overall growth and development of the SMEs sector in the country.

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APPENDICES

Null Hypothesis: SMES has a unit root
Exogenous: Constant
Lag Length: 1 (Automatic - based on SIC, maxlag=1)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-0.567173	0.8563
Test critical values:	1% level	-3.831511	
	5% level	-3.029970	
	10% level	-2.655194	

*MacKinnon (1996) one-sided p-values.

Warning: Probabilities and critical values calculated for 20 observations and may not be accurate for a sample size of 19

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(SMES)
Method: Least Squares
Date: 11/21/17 Time: 03:05
Sample (adjusted): 1994 2012
Included observations: 19 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
SMES(-1)	-0.012610	0.022234	-0.567173	0.5785
D(SMES(-1))	1.010706	0.257197	3.929690	0.0012
C	2677.316	2143.679	1.248935	0.2297

R-squared	0.842554	Mean dependent var	9965.222
Adjusted R-squared	0.822873	S.D. dependent var	4710.857
S.E. of regression	1982.631	Akaike info criterion	18.16618
Sum squared resid	62893182	Schwarz criterion	18.31530
Log likelihood	-169.5787	Hannan-Quinn criter.	18.19141
F-statistic	42.81113	Durbin-Watson stat	2.113038
Prob(F-statistic)	0.000000		

Null Hypothesis: MASSET has a unit root
Exogenous: Constant
Lag Length: 1 (Automatic - based on SIC, maxlag=1)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		2.429760	0.9999
Test critical values:	1% level	-3.769597	
	5% level	-3.004861	
	10% level	-2.642242	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(MASSET)
Method: Least Squares
Date: 11/21/17 Time: 03:07
Sample (adjusted): 1994 2015
Included observations: 22 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
MASSET(-1)	0.232498	0.095688	2.429760	0.0252
D(MASSET(-1))	-0.656314	0.276647	-2.372391	0.0284
C	5618.387	9193.131	0.611151	0.5483

R-squared	0.303125	Mean dependent var	15485.66
Adjusted R-squared	0.229770	S.D. dependent var	36183.79
S.E. of regression	31755.88	Akaike info criterion	23.69567
Sum squared resid	1.92E+10	Schwarz criterion	23.84445
Log likelihood	-257.6523	Hannan-Quinn criter.	23.73072
F-statistic	4.132297	Durbin-Watson stat	2.295139
Prob(F-statistic)	0.032357		

Null Hypothesis: MDEP has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=1)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-3.589913	0.0143
Test critical values:	1% level	-3.752946	
	5% level	-2.998064	
	10% level	-2.638752	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(MDEP)
Method: Least Squares
Date: 11/21/17 Time: 03:08
Sample (adjusted): 1993 2015
Included observations: 23 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
MDEP(-1)	-0.769176	0.214260	-3.589913	0.0017
C	51887.30	28623.77	1.812735	0.0842

R-squared	0.380302	Mean dependent var	6904.952
Adjusted R-squared	0.350793	S.D. dependent var	153180.8
S.E. of regression	123423.0	Akaike info criterion	26.36756
Sum squared resid	3.20E+11	Schwarz criterion	26.46630
Log likelihood	-301.2270	Hannan-Quinn criter.	26.39240
F-statistic	12.88748	Durbin-Watson stat	2.090420
Prob(F-statistic)	0.001724		

Null Hypothesis: MGE has a unit root
Exogenous: Constant
Lag Length: 1 (Automatic - based on SIC, maxlag=1)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-2.908088	0.0605
Test critical values:	1% level	-3.769597	
	5% level	-3.004861	
	10% level	-2.642242	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(MGE)
Method: Least Squares
Date: 11/21/17 Time: 03:09
Sample (adjusted): 1994 2015
Included observations: 22 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
MGE(-1)	-0.530667	0.182480	-2.908088	0.0090
D(MGE(-1))	0.290375	0.156339	1.857348	0.0788
C	197611.9	71317.37	2.770880	0.0122

R-squared	0.319680	Mean dependent var	12110.62	
Adjusted R-squared	0.248068	S.D. dependent var	179633.0	
S.E. of regression	155767.0	Akaike info criterion	26.87623	
Sum squared resid	4.61E+11	Schwarz criterion	27.02501	
Log likelihood	-292.6386	Hannan-Quinn criter.		26.91128
F-statistic	4.464023	Durbin-Watson stat	1.767085	
Prob(F-statistic)	0.025750			

Null Hypothesis: MFLOAN has a unit root
Exogenous: Constant
Lag Length: 1 (Automatic - based on SIC, maxlag=1)

			t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic			2.760540	1.0000
Test critical values:	1% level		-3.769597	
	5% level	-3.004861		
	10% level	-2.642242		

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(MFLOAN)
Method: Least Squares
Date: 11/21/17 Time: 03:10
Sample (adjusted): 1994 2015
Included observations: 22 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
MFLOAN(-1)	0.301530	0.109229	2.760540	0.0124
D(MFLOAN(-1))	-0.851556	0.336919	-2.527483	0.0205
C	2112.849	4002.223	0.527919	0.6037

R-squared	0.348244	Mean dependent var	6757.773	
Adjusted R-squared	0.279638	S.D. dependent var	16692.98	
S.E. of regression	14168.03	Akaike info criterion	22.08149	
Sum squared resid	3.81E+09	Schwarz criterion	22.23027	
Log likelihood	-239.8964	Hannan-Quinn criter.		22.11653
F-statistic	5.076003	Durbin-Watson stat	2.383480	
Prob(F-statistic)	0.017132			

At First Difference
Null Hypothesis: D(SMES) has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=0)

			t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic			-1.345430	0.5861
Test critical values:	1% level		-3.831511	
	5% level	-3.029970		
	10% level	-2.655194		

*MacKinnon (1996) one-sided p-values.
Warning: Probabilities and critical values calculated for 20 observations and may not be accurate for a sample size of 19

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(SMES,2)
Method: Least Squares
Date: 11/21/17 Time: 03:11
Sample (adjusted): 1994 2012
Included observations: 19 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(SMES(-1))	-0.124910	0.092840	-1.345430	0.1962
C	1605.787	992.5550	1.617831	0.1241

R-squared	0.096234	Mean dependent var	412.5679	
Adjusted R-squared	0.043071	S.D. dependent var	1985.912	
S.E. of regression	1942.674	Akaike info criterion	18.08082	
Sum squared resid	64157668	Schwarz criterion	18.18023	
Log likelihood	-169.7678	Hannan-Quinn criter.		18.09764
F-statistic	1.810181	Durbin-Watson stat	1.889006	
Prob(F-statistic)	0.196159			

Null Hypothesis: D(MASSET) has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=1)

			t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic			-4.904035	0.0008
Test critical values:	1% level		-3.769597	
	5% level	-3.004861		
	10% level	-2.642242		

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(MASSET,2)
Method: Least Squares
Date: 11/21/17 Time: 03:14
Sample (adjusted): 1994 2015
Included observations: 22 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(MASSET(-1))	-1.390393	0.283520	-4.904035	0.0001
C	19401.75	8072.508	2.403435	0.0261

R-squared	0.545966	Mean dependent var	5454.518
Adjusted R-squared	0.523264	S.D. dependent var	51321.88
S.E. of regression	35435.73	Akaike info criterion	23.87534
Sum squared resid	2.51E+10	Schwarz criterion	23.97452

Log likelihood	-260.6287	Hannan-Quinn criter.	23.89870
F-statistic	24.04956	Durbin-Watson stat	1.677549
Prob(F-statistic)	0.000086		

Null Hypothesis: D(MDEP) has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=1)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-7.978576	0.0000
Test critical values:	1% level	-3.769597	
	5% level	-3.004861	
	10% level	-2.642242	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(MDEP,2)
Method: Least Squares
Date: 11/21/17 Time: 03:15
Sample (adjusted): 1994 2015
Included observations: 22 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(MDEP(-1))	-1.523611	0.190963	-7.978576	0.0000
C	9767.637	29215.49	0.334331	0.7416

R-squared	0.760930	Mean dependent var	2146.205
Adjusted R-squared	0.748977	S.D. dependent var	273360.3
S.E. of regression	136959.5	Akaike info criterion	26.57927
Sum squared resid	3.75E+11	Schwarz criterion	26.67845
Log likelihood	-290.3719	Hannan-Quinn criter.	26.60263
F-statistic	63.65768	Durbin-Watson stat	2.316976
Prob(F-statistic)	0.000000		

Null Hypothesis: D(MGE) has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=1)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-5.445266	0.0002
Test critical values:	1% level	-3.769597	
	5% level	-3.004861	
	10% level	-2.642242	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(MGE,2)
Method: Least Squares
Date: 11/21/17 Time: 03:15
Sample (adjusted): 1994 2015
Included observations: 22 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(MGE(-1))	-0.902873	0.165809	-5.445266	0.0000
C	14309.47	39091.91	0.366047	0.7182

R-squared	0.597188	Mean dependent var	34749.48
Adjusted R-squared	0.577047	S.D. dependent var	280634.3
S.E. of regression	182510.0	Akaike info criterion	27.15351
Sum squared resid	6.66E+11	Schwarz criterion	27.25269
Log likelihood	-296.6886	Hannan-Quinn criter.	27.17687
F-statistic	29.65093	Durbin-Watson stat	1.848549
Prob(F-statistic)	0.000025		

Null Hypothesis: D(MFLOAN) has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=1)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-4.164374	0.0042
Test critical values:	1% level	-3.769597	
	5% level	-3.004861	
	10% level	-2.642242	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(MFLOAN,2)
Method: Least Squares
Date: 11/21/17 Time: 03:16
Sample (adjusted): 1994 2015
Included observations: 22 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(MFLOAN(-1))	-1.495128	0.359028	-4.164374	0.0005
C	8609.672	3734.684	2.305328	0.0320

R-squared	0.464410	Mean dependent var	3017.532
Adjusted R-squared	0.437631	S.D. dependent var	21796.78
S.E. of regression	16345.69	Akaike info criterion	22.32782
Sum squared resid	5.34E+09	Schwarz criterion	22.42701
Log likelihood	-243.6061	Hannan-Quinn criter.	22.35119
F-statistic	17.34201	Durbin-Watson stat	1.559082
Prob(F-statistic)	0.000479		

OLS RESULT LONG RUN
Dependent Variable: SMES
Method: Least Squares
Date: 11/21/17 Time: 04:27

Sample (adjusted): 1993 2012
Included observations: 20 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-9271.129	5150.301	-1.800114	0.0934
LMASSET	0.111015	0.061357	1.809326	0.0919
LMDEP	0.001373	0.005970	0.229990	0.8214
LMGE	-0.001989	0.002370	-0.839578	0.4153
LMFLOAN	-0.407613	0.139524	-2.921454	0.0112
LSMES(-1)	1.116424	0.036770	30.36238	0.0000

R-squared	0.999099	Mean dependent var	193800.0
Adjusted R-squared	0.998778	S.D. dependent var	61864.51
S.E. of regression	2162.925	Akaike info criterion	18.43964
Sum squared resid	65495399	Schwarz criterion	18.73835
Log likelihood	-178.3964	Hannan-Quinn criter.	18.49795
F-statistic	3105.937	Durbin-Watson stat	1.572902
Prob(F-statistic)	0.000000		

ECM RESULT
Dependent Variable: DSMES
Method: Least Squares
Date: 11/21/17 Time: 03:54
Sample (adjusted): 1994 2012
Included observations: 19 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1704.575	686.9518	2.481360	0.0289
DMASSET	0.054815	0.031095	1.762804	0.1034
DMDEP	0.004737	0.003080	1.538211	0.1499
DMGE	-0.000832	0.001759	-0.473079	0.6446
DMFLOAN	-0.183817	0.069998	-2.626031	0.0221
DSMES(-1)	0.886478	0.071610	12.37924	0.0000
ECM(-1)	-0.669450	0.184512	-3.628221	0.0035

R-squared	0.948594	Mean dependent var	9965.222
Adjusted R-squared	0.922891	S.D. dependent var	4710.857
S.E. of regression	1308.131	Akaike info criterion	17.46790
Sum squared resid	20534493	Schwarz criterion	17.81585
Log likelihood	-158.9450	Hannan-Quinn criter.	17.52678
F-statistic	36.90617	Durbin-Watson stat	2.086047
Prob(F-statistic)	0.000000		

Cointegration Test Results
Date: 11/21/17 Time: 04:21
Sample (adjusted): 1994 2012
Included observations: 19 after adjustments
Trend assumption: Linear deterministic trend
Series: SMES MGE MFLOAN MDEP MASSET
Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.992195	148.3439	69.81889	0.0000
At most 1 *	0.733054	56.13739	47.85613	0.0069
At most 2 *	0.694551	31.04390	29.79707	0.0358
At most 3	0.355765	8.510417	15.49471	0.4125
At most 4	0.008191	0.156268	3.841466	0.6926

Trace test indicates 3 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.992195	92.20656	33.87687	0.0000
At most 1	0.733054	25.09349	27.58434	0.1008
At most 2 *	0.694551	22.53348	21.13162	0.0316
At most 3	0.355765	8.354149	14.26460	0.3439
At most 4	0.008191	0.156268	3.841466	0.6926

Max-eigenvalue test indicates 1 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegrating Coefficients (normalized by b'*S11*b=I):

SMES	MGE	MFLOAN	MDEP	MASSET
-2.25E-05	1.31E-06	-0.000531	0.000246	6.13E-05
-1.82E-05	-5.46E-07	0.001544	0.000934	-0.001006
-9.97E-05	4.61E-06	-0.000363	-0.000376	0.000365
8.25E-05	3.28E-06	0.000778	0.000241	-0.000466
3.85E-05	1.71E-06	0.000526	0.001448	-0.000868

Unrestricted Adjustment Coefficients (alpha):

D(SMES)	-334.5156	293.5955	-1074.480	59.25975	-47.38623
D(MGE)	-11569.81	47778.16	-55736.74	-93725.05	3892.615
D(MFLOAN)	3149.760	-3176.050	-2541.067	72.83214	328.6226
D(MDEP)	-37374.76	-15628.43	5262.655	-6624.783	966.9777
D(MASSET)	5917.580	-3857.066	-6453.563	1541.332	859.3513

1 Cointegrating Equation(s): Log likelihood -986.4892

Normalized cointegrating coefficients (standard error in parentheses)

SMES	MGE	MFLOAN	MDEP	MASSET
1.000000	-0.058371	23.61387	-10.96097	-2.724942
	(0.00682)	(2.00690)	(1.90507)	(1.47684)

Adjustment coefficients (standard error in parentheses)

D(SMES)	0.007522
	(0.00933)
D(MGE)	0.260157
	(1.19917)
D(MFLOAN)	-0.070825
	(0.03913)
D(MDEP)	0.840402
	(0.16183)

D(MASSET)		-0.133062		
	(0.08645)			

2 Cointegrating Equation(s): Log likelihood -973.9424

Normalized cointegrating coefficients (standard error in parentheses)

SMES	MGE	MFLOAN	MDEP	MASSET
1.000000	0.000000	-47.93019	-37.56258	35.52941
		(11.0956)	(10.3635)	(8.07167)
0.000000	1.000000	-1225.673	-455.7314	655.3629
(191.074)	(178.467)	(139.000)		

Adjustment coefficients (standard error in parentheses)

D(SMES)	0.002169	-0.000599	
	(0.01175)	(0.00058)	
D(MGE)	-0.610989	-0.041294	
	(1.49134)	(0.07324)	
D(MFLOAN)		-0.012916	0.005870
	(0.04281)	(0.00210)	
D(MDEP)	1.125357	-0.040515	
	(0.16233)	(0.00797)	
D(MASSET)		-0.062735	0.009875
	(0.10653)	(0.00523)	

3 Cointegrating Equation(s): Log likelihood -962.6757

Normalized cointegrating coefficients (standard error in parentheses)

SMES	MGE	MFLOAN	MDEP	MASSET
1.000000	0.000000	0.000000	-226.8617	118.4372
			(34.6140)	(15.8569)
0.000000	1.000000	0.000000	-5296.495	2775.483
			(831.413)	(380.876)
0.000000	0.000000	1.000000	-3.949474	1.729760
			(0.61868)	(0.28342)

Adjustment coefficients (standard error in parentheses)

D(SMES)	0.109328	-0.005557	1.021165	
	(0.02721)	(0.00127)	(0.43824)	
D(MGE)	4.947728	-0.298440	100.1449	
	(5.08220)	(0.23626)	(81.8439)	
D(MFLOAN)		0.240509	-0.005854	-5.652143
	(0.13336)	(0.00620)	(2.14769)	
D(MDEP)	0.600504	-0.016236	-6.191869	
	(0.56055)	(0.02606)	(9.02709)	
D(MASSET)		0.580889	-0.019899	-6.751758
	(0.32955)	(0.01532)	(5.30712)	

4 Cointegrating Equation(s): Log likelihood -958.4986

Normalized cointegrating coefficients (standard error in parentheses)

SMES	MGE	MFLOAN	MDEP	MASSET
1.000000	0.000000	0.000000	0.000000	-0.668279
				(0.10812)
0.000000	1.000000	0.000000	0.000000	-5.248352
				(2.39700)
0.000000	0.000000	1.000000	0.000000	-0.343767
				(0.00372)
0.000000	0.000000	0.000000	1.000000	-0.525014
				(0.00530)

Adjustment coefficients (standard error in parentheses)

D(SMES)	0.114219	-0.005362	1.067248	0.609893	
	(0.03468)	(0.00153)	(0.48227)	(0.27827)	
D(MGE)	-2.786836	-0.605823	27.26082	40.08539	
	(5.40919)	(0.23800)	(75.2109)	(43.3973)	
D(MFLOAN)		0.246520	-0.005615	-5.595506	-1.217216
	(0.17032)	(0.00749)	(2.36820)	(1.36647)	
D(MDEP)	0.053801	-0.037962	-11.34355	-27.38488	
	(0.66954)	(0.02946)	(9.30950)	(5.37166)	
D(MASSET)		0.708086	-0.014844	-5.553161	0.654041
	(0.41678)	(0.01834)	(5.79499)	(3.34376)	

DATA

YEAR	SMEs	MASSET	MDEP	MGE	MFLOAN
1992	116,913.96	967.2	639.6	927970.4	135.8
1993	120,304.45	3,198.60	2,188.20	191228.9	654.5
1994	123,913.61	4,693.20	3,216.70	160893.2	1,220.60
1995	128,126.65	4,106.50	2,834.60	248768.1	1,129.80
1996	132,982.64	4,432.50	2,876.30	337217.6	1,400.20
1997	138,700.91	4,706.40	3,181.90	428215.2	1,618.80
1998	144,110.25	6,477.20	4,454.20	487113.4	2,526.80
1999	151,661.65	8,903.60	4,140.32	947691.2	2,958.30
2000	156,211.49	12,014.70	7,689.40	701059.4	3,666.60
2001	162,147.52	4,884.40	3,294.00	101802.6	1,314.00
2002	168,884.33	15,463.50	9,699.20	101815.6	4,310.90
2003	180,706.23	28,689.20	18,075.00	122596.6	9,954.80
2004	192,452.16	34,162.30	21,407.90	142620.1	11,353.80
2005	206,178.40	82,866.90	47,523.70	182210.2	28,504.80
2006	221,622.25	55,145.84	34,017.70	193800.3	16,450.20
2007	237,685.67	75,549.80	41,217.70	245089.7	22,850.20
2008	252,469.72	122,753.76	61,568.10	324082.2	42,753.06
2009	267,179.67	151,610.00	76,662.00	345299.1	58,215.66
2010	282,605.07	170,338.90	75,739.60	419421.8	52,867.50
2011	298,414.39	117,872.10	593,375.90	429915.5	50,928.30
2012	309,643.67	189,293.56	98,789.10	457662.6	80,127.86
2013	-237,837.60	121,787.60	419421.8	94,055.60	
2014	4,629,427.50	221,652.30	110,688.40	429915.5	82,421.10
2015	-343,883.10	159,453.50	457662.6	149,325.50	