The Effects of Monetary Policy on Microfinance Banks' Credit and The Performance of Small and Medium Scale Enterprises in Ekiti State

Olofinlade Samuel Oluwapelumi[1], Ajayi Lawrence Boboye[2] and Aremu Samuel Olusegun[3]

[1,2]Department of Finance, Faculty of Management Sciences, Ekiti State University, Ado-Ekiti, Nigeria.

[3]Department of Banking and Finance, Faculty of Financial Management Studies, The Polytechnic, Ibadan, Nigeria.

***Abstract*—** The study was to examine the effects of monetary policy on microfinance banks' credit and the performance of small and medium scale enterprises in Ekiti State, South-west, Nigeria which has been an issue that has gained momentum among scholars of repute. Different relevant concepts and empirical reviews were carried out. Three hypotheses were formulated in line with the study objectives these were examined using different techniques of regression analysis to achieve the stated objectives. Data were sourced from the primary and secondary. The primary data were collected with the aid of a well structured questionnaire which was managed on the owners of the small and medium scale enterprises in the selected local government areas. While secondary data were sourced from the Central bank of Nigeria Statistical bulletin and National Bureau of Statistics. However, Non-linear Autoregressive distributed lag (NARDL) econometric techniques approach was applied on the secondary data. The choice of this method is informed by the fact that all the variables are not integrated of the same order (I). The results outcome reveals that monetary policy tools of money supply and inflation has positive and significant effect on bank lending under the study period. Also microfinance bank credit had meaningful effect on profitability of small and medium scale enterprises in both the short run and long run minding the effects of monetary policies. The third objective of, advisory services, consultancy services, pre-loan training had significant and positive effects on the profitability of SMEs. The equivalent is that the more these non-financial services are provided in the short run by the microfinance banks, the more the profitability of SMEs in the short-run. It was concluded that government should create an enabling environment for business opportunities to thrive in the country and that the conditions for accessing the credit facilities by the small and medium scale enterprises should be less stringent. That government should formulate policy that would make business activities of small and medium scale enterprises amenable and easy to conduct.

***Keywords*—** Monetary policy, Performance, Small and Medium Scale Enterprises, Credit Facilities

JEL Classifications: E51, E52

1. INTRODUCTION

Monetary policy is a precise step taken by the Central Bank (Monetary Authority) to control the value, supply and cost of money in the economy with a view to actualizing predetermined macroeconomic objectives (CBN, 2013). In order to promote and achieve effective performance of Small and Medium Enterprise (SME) sector, the contribution of the Microfinance banks in terms of granting credit facilities and other assistance of relevance becomes sacrosanct. Furthermore, Otero (1999) microfinance banks deals with the provision of financial services to low income, poor and very poor self employed people. These financial services include: small loans, savings financing small business for active poor both in rural and urban areas of the country. Though MFBs provides timely, affordable, diversified and dependable financial services; that active poor SMEs who could not access financial services of universal deposit money banks. Although, optimizing the performance of the economy could be predicated on the contribution of the small and medium scale enterprises coupled with the objectives of monetary policies in use to create enabling environment for such growth. Conversely, globally SMEs carry diverse connotations; SMEs perform the role of economic development and provision of jobs in a country. The government may create favourable avenue through tight or ease monetary policy to aid SMEs resulting in creating more direct jobs compared to big enterprises; and thereby making the SMEs an avenue as training grounds for those who want to develop technical and entrepreneurial skills.

Competence, effective, and efficient Microfinance banks serve the financial needs of informal sectors. Many microfinance institutions recognize that the market is huge enough to oblige the traditional and universal banks. SMEs are prepared to control and have a lot of influence over or have market share before the open market competition is in full effect in a country.

There is a notion that microfinance banks are bad risk taker and that their services may not be sustainable to aid the survival of small and medium scale enterprises. In the light of this, entrepreneurs do have slight concern for funding from this sector. This is in addition to the issues of high contract costs and short length of payback period when funding is acquired from MFBs. Moreover, a robust economic performance cannot be actualize without putting in place a well deserving programme to reduce poverty through empowering the people by increasing their access to formal financial services. The Central Bank of Nigeria in 2005 as part of its banking reform agenda started licensing Microfinance Institutions (MFIs) aimed at providing financial services to small and medium scale enterprises that are not served by the conventional financial institutions.

According to Yarron (1998), Nigeria is blessed with outstanding entrepreneurs who need assistance at Micro, Small and Medium Scale Enterprises levels as well as big businesses. A common feature of these enterprises is their need for good financing. An obvious and probable development of Small and Medium Scale Enterprises (SMEs) in Nigeria is attached to the backing of banks through issuing of bank credits to SMEs. Annually, loans to SMEs appreciate and largely greater than the progression in the total of bank credit. A known way of raising capital for SMEs is through the process of borrowing from financial institutions.

Credit is a financial facility that allows a person or business entity to borrow money, to buy products and pay it back within the prescribed period. The problem faced by Small and Medium Scale Enterprises (SMEs) in Ekiti State, Nigeria can fundamentally be regarded as internal and external. According to Hamid and Susilo (2010) the problems that could be regarded as internal factors are: (1) lack of capital, (2) limited human resources and (3) weak business networks and market penetration capability. In another vein, external factors include the followings (1) the business environment is not yet conducive, (2) limited facilities and business infrastructure, (3) regional autonomy implication, (4) the nature of the product life time which is short, (5) lack of market access and (6) the implications of free trade. Requiring capital, SMEs want the backing of financial institutions most especially money deposit banks.

It is crystally clear from literature that the access to finance of smallest and medium scale enterprises is still low. In essence, there are several issues generating this problem one of which is the profile of the prospective debtors of small and medium scale enterprises. It is obvious that most of the SMEs do not have what it takes to apply for financial assistance in terms of loans and advances from the banks. In the postulation of Susilo (2010), funding small and medium scale enterprises is highly crucial in order to ensure the promotion of workable economic progression and plummeting poverty in the country. There is need for government involvement which perhaps is a veritable tool for optimizing economic performance in Nigeria. The intervention could be in form of policy transformation through reduction in interest rate charged by microfinance banks, interest-free loans and other industrialization-oriented policies. This policy change would essentially ensure the stimulation of economy and promote growth of small and medium scale enterprises in Nigeria.

Statement of the Problem

The development of every country perhaps hinges on the growth of small and medium scale enterprises (SMEs) and monetary policy in use. In the light of this, it is appalling that Nigeria has experienced poverty of mindset when it comes to developing and improving the growth of small and medium scale enterprises. The conduit by which the optimization of their performance can be ensured could have been through the granting of credit to them by the microfinance banks and the friendly monetary policies for entrepreneur. However, most microfinance banks have not been forth-coming thus impairing the performance of these SMEs.

The microfinance banks projects the willingness to help these SMEs, however, the stringent conditions attached to some of these credit facilities makes it inaccessible. Therefore, yearly, most of the small and medium scale enterprises do not seem to make any substantial progress over time. They have been stagnated in terms of performance. Most of them are even backward and thus considering quitting the business as the owners of such businesses could not meet up with their daily basic obligations. This problem of lack of access of small and medium enterprises to secure financial facilities by the banks should be addressed, or else, it could stunt the economic growth of the country.

Objectives of the Study

The broad objective of the study was to examine the effects of monetary policy on microfinance banks’ credit and the performance of small and medium enterprises in Ekiti State, South-west Nigeria. The specific objectives were to:

i. investigate the effects of monetary policy on microfinance banks’ lending in Ado – Ekiti, Ekiti State, Nigeria.
ii. examine the relationship between microfinance banks' credit and profitability of small and medium scale enterprises in Ekiti State, Nigeria and
iii. investigate the effects of microfinance banks' non-financial services on the profitability of small and medium scale enterprises in Ekiti State, Nigeria.

Research Hypotheses

i. In order to actualise the stipulated objectives of the study, the following hypotheses were formulated:

ii. monetary policy instruments do not have significant effects on microfinance banks' lending in Ekiti State, Nigeria

iii. there is no meaningful nexus between microfinance banks' credit and profitability of small and medium scale enterprises in Ekiti State, Nigeria; and

iv. there is no meaningful nexus between microfinance banks' non-financial services and profitability of small and medium scale enterprises in Ekiti State, Nigeria.

2. LITERATURE REVIEW

Theoretical Framework

This study is anchored on the theory promulgated by Harold (1939) and Dolmar (1946), and this is called the Harold Dolmar growth model. The supposition in the model is that, for steady state of progress, total demand must grow at the same rate as an economy's output capacity grows. The model has the following implications on this study, first there is a need for investment if an investor has to grow and this necessitates access to loans and savings given by MFIs This will facilitate more investment by SME owners. The implication is that despite the effort made to lend to entrepreneurs, their business prosperity is limited by the country and global economic performance.

As national economic performance grows the SMEs and members also perform well because there will be more business opportunities. The theory believes that the activities of the microfinance banks in form of credit provision, savings mobilization, insurance, training etcetera serves as a useful instrument for snowballing the creative capacity of the users. The essence of microfinance banks in stimulating development has been widely discussed in literature. Bencivenga and Smith (1991) posited that development of microfinance banks and effective financial intermediation add value to economic performance of rural area by channelling savings to high productive activities and reducing risks that may endangered productive capacity of SMEs.

This study aimed at identifying programmes, encourage small-scale industries, scrutinise them on how they meet their goals and test the effects of these programmes on business performance. The study was carried out in three key local governments where industrial and commercial activities are highly concentrated. The independent variables consist of: small business development measured by the size of the amount of labour, business structure and technology development. On the other hand, the dependent variable is company promotion policy programme that is operated and measured with Likert scale. Descriptive and inferential analyses were used to analyse the data obtained through questionnaires. It was revealed that the corporate promotional programmes focused on the development of small industry in terms of technical aspects, education, training, technology adaptation and commercialization and information services. The awareness level of SMEs of such programmes is still low which hampered small industries in utilizing these programmes.

In another study carried out by Hassan and Olaniran (2011) investigated the effects of the functions played by microfinance banks (MFBs) in promoting the performance of SMEs in Nigeria. The findings indicated a positive impact of MFBs in fostering the performance of SMEs in the country. Akingunola (2011) also examined the particular financing options available to SMEs in Nigeria and their contributions to economic growth. Financing aid agencies have assisted to the development of SMEs in Nigeria with particular reference to the Industrial Development Center (IDC). Their SME financing aid agencies proved that they were able to increase the output of SMEs.

Obasan and Arikewuyo (2012) investigated the effects of pre-post bank consolidation on the accessibility to finance by SMEs in Nigeria. Results findings indicated that prior to banking consolidation, access to SMEs to get credit was very difficult and this curtailed the growth of SMEs in Nigeria. With banking consolidation, the impact on the growth of SMEs and economic growth of Nigeria tended to be positive. Joseph and Dansu (2013) examine the nexus between business risk and sustainability of SMEs in Nigeria. They asserted that SMEs faced a number of risks that require risk management efforts that are objective and transparent. Primary data were generated from fifty (50) SMEs in Lagos State. Data analyses and hypotheses testing were carried out using Chi-square and descriptive statistics. The results revealed that the risk management strategies of SMEs did have a positive impact on the sustainability of their businesses.

Abereijo and Fayomi (2005) also examined innovative approaches to financing SMEs across the world, especially private equity financing in order to identify best SMEs practices. It was found that there were still many disputes for banks across the world to overcome difficulties in implementing SMEs credit scheme, challenges related to cash flow, structuring investments, increased monitoring / value, liquidity and exit methodologies.

Katua (2014) conducted a study on the effects of bank loans to SMEs on economic growth of the country (Nigeria). They observed that though Small and Medium Enterprises are potential for creating value-addition, in reality, it have not been maximally developed as evidenced by many shortcomings that hamper SMEs to flourish. One significant factor is capital (investment). This hampers SMEs from raising the scale of production and expansion. The study however found a positive nexus between easy access for SMEs to credit and economic growth.

Concept of Monetary Policy

Monetary policy by definition refers to the important action taken by the Central Bank to control the value, supply and cost of money in the economy with a view to achieving government's macroeconomic objectives. In order to maintain price stability and an improved balance of payment position, monetary management depends on the use of monetary instruments such as credit ceilings, selective credit controls, administered interest and exchange rates, as well as the prescription of cash reserve requirements and special deposits (Ajisafe & Folorunso, 2010). According to Nnanna (2004), macroeconomics policies in developing countries are designed to stabilise the economy, stimulate growth and reduce poverty. Over the years, these major economic goals have been the focus of the CBN. The use of market-based instrument was not visible at that point because of the infant nature of the financial market and the intentional restraint of interest rate by the Central Bank. The economic environment that piloted monetary policy before 1986 was characterised by the dominance of oil sector and the expanding functions of public sector in the economy is over-dependence on the external sector.

The most important and useful instrument of monetary policy was issuance of credit rationing guidelines, which primarily set the rate of change for the components and aggregate of commercial banks' loan and advance to the private sector and the sectorial allocation of bank credit according to CBN's guidelines. This was to facilitate the productive sector and thereby curtailing inflation pressures towards economic growth. The fixing of interest rates at relatively low level was done primarily to encourage investment and growth. Occasionally, special deposits were introduced to reduce the amount of free reserves and crediting capacity of commercial banks. These objectives are necessary for the achievement of internal and external balance and the promotion of long-run economic growth (CBN, 2006).

Concept of Performance

Performance according to Obiwuru, Okwu, Akpa and Nwankwere (2011) refers to willingness of an organization to achieve such goals as high profit, quality product; large market share, good financial results and survival at pre-determined time using different strategies for action. Consequently, Williams and Andersons, (1991) also view performance as employee's achievement level in his/her responsibilities and duties allocated in the workplace. Understanding determinant factors of SMEs performance is considered an important area of focus in enterprises (Rosli, 2011). This is because SMEs contribute to employment growth at a higher rate than larger firms. Anastasia (2008) posited that organizational performance can be measured by effectiveness, efficiency, satisfaction and innovation of products.

Concept of Microfinance

Microfinance is a poverty alleviation tool which has earned worldwide recognition since the 1990s and proven to have positive impact on poverty levels and entrepreneurship development in developing countries (Hossain et al, 2008). Microfinance is the provision of financial services to the poor, aiming at empowering low income population by assisting them with easy access to credit and other financial services.

Through MFIs, the poor can obtain collateral-free loans at relatively low interest rates and use the money for creating microenterprises (small businesses owned by poor people), funding children's education and improving households, among others. Aside from microcredit, MFIs have also developed numerous financial services such as micro-insurance and micro-mortgage designed to accommodate the poor's financial needs. Most of these institutions have also required their clients to open up savings accounts which could be used for emergency and investment purposes (Carr & Tong, 2002).

The Canadian International Development Agency (CIDA) established that microfinance as the provider of broad range of financial services to poor, low income households and micro enterprises usually lacking access to formal financial institutions (CIDA, 2002). It is the provision of financial services and the management of small amounts of money through a range of products that are targeted at the poor people. This product includes loans, savings, insurance et cetera (United Nation, 2005). According to Almeyda and Branch (1999), micro finance is the financial intermediary suitable for the provision of credit, savings and other financial services to lower-income groups. In addition, Otero (1999) explained microfinance as the provider of financial services to low-income poor and very poor self-employed people. Microfinance came into being from the appreciation that micro-entrepreneurs and some poorer clients can be 'bankable', that is, they can repay both the principal and premium on time and also make savings provide financial services that are tailored to suit their needs.

Concept of Microcredit

According to Micro-credit Summit (2002), Microcredit is the extension of small loans to investors that are too poor to qualify for commercial bank credit. It is the provision of cash and in kind loans in smaller amounts (tranches) to micro, small entrepreneurs meant to improve their business operations. Sinha and Matin (1998) described microcredit as small loans, whereas microfinance is appropriate where NGOs and Microfinance Institutions (MFIs) supplement the loans with other financial services such as savings, insurance, etcetera. Thus microcredit is an integral part of microfinance in that it involves providing credit to the poor. Credit however provides the basis for increased production efficiency through a specialization function (Kimemia, 2004).

Concept of SME in Nigeria

Small scale businesses, Small scale industries and small scale entrepreneurship are often used interchangeably to mean a Small and Medium Scale Enterprise. In Nigeria and worldwide, there seems to be no specific definition of small business. Different authors, scholars, and schools of thoughts have different ideas as to the differences in capital outlay, number of employees, sales turnover, fixed capital investment, available plant and machinery, market share and the level of development, these functions equally vary from one country to the other.

In Nigeria, for example, the Third National Development plan defined a small scale business as a manufacturing establishment employing less than ten people, or whose investment in machinery, equipment and assets does not exceed six hundred thousand naira (N600,000). Similarly, Central Bank of Nigeria (CBN) in its credit guidelines, categorise small scale business as the businesses with an annual income/asset of less half a million naira (N500,000). Also, the Federal Government Small Scale Industry Development Plan of 1980 defined a small scale business in Nigeria as any manufacturing process or service industry with a capital not exceeding N 150,000 in manufacturing and equipment alone. In the same vein, the Small Scale Industries Association of Nigeria (1973) also defined small scale business as those having investment (i.e. capital, land building and equipment of up to N600,000 (pre-SAP Value) and employing not more than fifty persons. While, the Federal Ministry of Industries defined it as those enterprises that cost no more than N500,000 (pre-SAP Value) including working capital to set up. In addition, the Centre for Management Development (CMD) definition of small industry in the policy proposal submitted to the federal government in 1982 defined small scale industry as, “a manufacturing processing, or servicing industry involved in a factory of production type of operation, employing up to 50 full-time workers".

Loan Portfolio

Loan portfolio encompasses loans that have been made or bought and are being held for repayment. Loan portfolios are the main assets of Microfinance institutions. The value of loan portfolio depends not only on the interest rates earned on loans but also on the totality that interest and principal will be paid (Jansson, 2002). Lending is the main business activities of banks; the loan portfolio is typically the largest assets and the actual source of banks revenue. Therefore, efficient loan portfolio by MFBs in granting credit to SMEs with oversight risk on individual loans coupled with the management of such risk through prudent risk selection is vital towards maintaining favourable loan quality by MFBs.

3. METHODOLOGY

Study Area

The study was carried out in Ekiti State, focusing on three Local Government Areas of Ado, Ikere and Ijero. These three local governments were picked in Ekiti State owing to the concentration of small and medium scale enterprises in these areas and at the same time one from each of the senatorial district in the state. The study essentially concentrated on the effects of monetary policies on the performance of small and medium scale enterprises in these local government areas due to their commercial activities. The choice of the three local governments was informed by the analogy of fact that the local governments have long assumed the status of economic and political heartland of Ekiti State in South-west, Nigeria.

Scope of the Study

The study focused and intended to study the effects of monetary policies on microfinance banks’ credit and the performance of small and medium scale enterprises in

Ado, Ikere and Ijero local government's area of Ekiti State, South-west, Nigeria.

Research Design

The design that was employed in this study is the survey design of a descriptive nature. This involves the use of questionnaire to elicit response from the participants.

Population and Sample of the Study

The population of the study covered the small and medium scale enterprises owners in Ado, Ikere and Ijero local governments, while the sample size for the purpose of the study was 150 owners of small and medium enterprises.

Procedure of Data Collection and Instrumentation

Data was collected with the aid of a well structured questionnaire. The questionnaire was managed on the owners of the small and medium scale enterprises in the selected local government areas. In the process of data collection, the researcher employed research assistants who helped in taking the questionnaires to these SME owners and their responses were retrieved after some of them have successfully filled the questionnaires.

Two instruments were employed for this study. The first instrument used for this study was the micro-credit and micro-savings questionnaire developed by Msoka (2014). Small and medium scale enterprises performance was measured by profitability, sales growth, innovation, effectiveness, efficiency and customer satisfaction questionnaire was adapted from Anastasia (2008). The instruments had a five-point rating scale of Strongly Agree, Agree, Disagree, Undecided and Strongly Disagree response options.

The model for the study is presented below:

$SP = \alpha i + \beta 1IF + \beta 2IC + \varepsilon$ 1

Where:

SP- Information on SME's Performance

αi – Intercept of the model

β- The slope coefficient

IF- Information on Micro-loan

IC- Information on Micro-savings

ε - Random disturbance term.

4.1 Presentation of Result

Hypothesis one states that monetary policy instruments do not have significant effects on microfinance banks' lending in Ado, Ekiti State, South-west, Nigeria.

Table 1: Regression Analysis of the Effects of Monetary Policy on Microfinance Bank Lending to SMEs in Ado- Ekiti

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.722854	0.144923	4.987866	0.0000
MS	0.018132	0.013946	1.300144	0.2031
MPR	0.299246	0.122950	2.433885	0.0209
INF	0.124286	0.048706	2.551775	0.0159
R-squared	0.392501	F-statistic		6.676304
Adjusted R-squared	0.333711	Durbin-Watson stat		1.702068
Prob(F-statistic)	0.001315			

Source: E-view 9, (2019)

The result reveals that monetary policy tools of money supply and inflation has positive and significant effect on bank lending. Also, monetary policy rate has insignificant positive effect on bank lending in Nigeria under the study period. Hence, one per cent increase in MS and INF will result to about 0.01% and 0.12% significant increase on bank lending respectively whereas MPR will result to a significant positive increase of about 29.9% on bank lending. Overall, the R-square value of 39% explains the variation of the selected explanatory variables on bank lending while the remaining high 61% were accounted to stochastic error, that is, other important variables outside the regression model. Nevertheless, the model is generally significant by its F-statistics value of 6.67 i.e 66.6% and its probability value of 0.00 which is less than 0.05. The Durbin Watson test statistics of 1.70 if approximated to 2 explored that the model is free from autocorrelation.

Hypothesis two states that there is no meaningful effect of microfinance banks' credit on the profitability of small and medium enterprises in Ekiti State, Nigeria.

4.5.1 Objective two

In order to actualise the objective two of the study, the hypothesis two which states that there is no meaningful nexus between microfinance banks' credit and profitability of small and medium scale enterprises in Nigeria was tested on the variables of interest namely: MFPAT, MBLA, MFBS and INT using Non-linear ARDL Analysis

4.5.1.1 Non-linear ARDL Analysis

In order to examine the nexus between microfinance banks' credit and profitability of small and medium enterprises in Ekiti State, Nigeria, this study employed Non-linear Autoregressive distributed lag (NARDL) approach. The choice of this model is informed by the fact that all the variables are not integrated of the same order (I).

In this model, the dependent variable is profitability of SMEs proxied by microfinance profit after tax (MFPAT)) while the independent variables are Microfinance banks' loans and advances (MBLA), microfinance savings (MFBS) and Interest Rate (INT).

Table 2: Short-Run Auto Regressive Distributed Lag Model Result

Dependent Variable ΔlnMFPAT		
Regressors	Coefficients	T-statistics (p-value)
ΔlnINTt	-0.4121	-1.711 (0.038)**
ΔlnMBLA	0.389	1.823 (0.024)**
ΔlnMFBS	0.985	1.997 (0.0199)**
Constant	-0.511	-0.865 (0.423)
ECMt-1	-0.316	-3.241 (0.031)**
R2	**0.844**	
Adjusted R2	**0.754**	
F-stat (4, 9)	**5.813 (0.001)*** **	
DW-stat.	**3.215**	

Source: Author's Computation from E views 10,

Note: ***, **, * implies 1%, 5% and 10% level of significance

The short run result in Table 2 above shows that Microfinance banks' loans and advances had positive and significant effect on the profitability of small and medium scale enterprises. The involvement is that even in the short run, an increase in the microfinance savings and advances has an equivalent increase in the level of profit of SMEs. There was also a significant and positive effect of microfinance banks' savings on the profitability of SMEs. This shows that the more the savings, the higher the tendency of the SMEs to make profit. Furthermore, the result revealed that interest rate had significant and negative effect on the profitability of small and medium enterprises. The equivalent is that the more the interest rate, the lower the rate of profitability of the SMEs in the short-run. Also, the error correction term is 31.6% adjustment speed to the long run equilibrium, with negative value, below one and significant. Therefore, the coefficient of the error term lends credence to the co-integration relationship among the variables. In measuring the goodness-of-fit as indicated in Table 2, involving R2, Adjusted R2, F-stat and DW-stat. Adjusted R2 of 75.4% shows the combine impact of interest rates and Microfinance Banks' Loans and Advances on the profitability of SMEs. Moreover, with the DW stat of 3.215 this implies that the model is free from autocorrelation.

Table 3: Estimated Long Run Coefficients' Result

Dependent Variable InMFPAT		
Regressors	Coefficients	T-statistics (p-value)
InINT	-1.421	-1.923 (0.0374)**
InMBLA	0.732	1.386

		(0.0189)***
InMFBS	0.844	2.134 (0.0072) ***
Constant	-2.311	-0.694 (0.242)

Source: Author's Computation from E views 10,

Note: ***, **, * implies 1%, 5% and 10% level of significance

The long-run result in Table 3 above shows that Microfinance Banks' Loans and Advances had positive and significant effect on the profitability of small and medium enterprises. The implication is that in the long run an increase in the Microfinance Banks' Loans and Advances has an equivalent increase in the level of profit of SMEs. It was also notable that microfinance banks' savings was positive and significant. This implies that the more the savings, the more the profitability of SMEs. Furthermore, the result reveals that interest rate had significant and negative effects on the profitability of small and medium enterprises. Therefore, if the interest rate is raised, it will reduce the profitability level of SMEs in the long run.

The objective three of the study and the hypothesis three which states that there is no meaningful nexus between microfinance banks' non-financial services and profitability of small and medium scale enterprises in Ekiti State, South- west, Nigeria was tested.

Non-linear ARDL Analysis

To examine the relationship between the nonfinancial services of microfinance banks and profitability of small and medium scale enterprises in Ekiti State, Southwest, Nigeria, this study employed Nonlinear Autoregressive distributed lag (NARDL) model. The choice of this method is informed by the fact that all the variables are not integrated of the same order. In this method, the dependent variable is profitability of SMEs proxied by microfinance profit after tax (MFPAT)) while the independent variables are Consultancy Services (CS), Advisory Services (AS), Group Membership (GM), Cross Guaranteeship (CG), Pre-loan Training (PT).

Table 4: Result of Short-Run Auto Regressive Distributed Lag Model

Dependent Variable ΔlnMFPAT		
Regressors	Coefficients	T-statistics (p-value)
ΔInCS	0.222	2.143 (0.002)***
ΔInAS	0.421	1.944 (0.0487)**
ΔInGM	0.658	1.006 (0.083)*
ΔCG	0.381	-1.022 (0.214)
ΔInPT	0.662	1.228 (0.003)***
Constant	-0.686	1.0287 (0.0487)**
ECMt-1	-0.112	-2.134 (0.052)*
R2 **0.655** **Adjusted R2** **0.586** **F-stat (4, 9)** **4.387 (0.000)***** **DW-stat.** **2.872**		

Source: Author's Computation from E views 10,

Note: ***, **, * implies 1%, 5% and 10% level of significance,

Table 4 above shows the results of ARDL of SME profitability (proxied by microfinance profit after tax) and microfinance banks' non-financial services in the short run. It indicates that advisory services, consultancy services, pre-loan training had significant and positive effects on the profitability of SMEs. The equivalent is that the more these non-financial services are provided in the short run by the microfinance banks, the more the profitability of SMEs in the short-run. However, cross guaranteeship had no significant effects on the profitability of SMEs in the short run. In essence, it does not have any substantial effects on the profitability of SMEs in the short-run. Also, the error correction term is 11.2% adjustment speed to the long run equilibrium, with negative value, below one and significant. Therefore, the coefficient of the error term is a confirmation of the co-integration relationship among the variables. In measuring the goodness-of-fit as indicated in Table 4 involving R2, Adjusted R2, F-stat and DW-stat, adjusted R2 of 58.6% shows the combine effect of non-financial services of microfinance banks on the profitability of SMEs. Moreover, with the DW stat of 2.872, it implies that the model is free from autocorrelation.

Table 5: Result of Estimated Long Run Coefficients

Dependent Variable InMFPAT		
Regressors	Coefficients	T-statistics (p-value)
InCS	0.675	1.921 (0.0694)*
InAS	0.732	1.386 (0.0189)***
InGM	0.338	2.345 (0.0282) **
InCG	0.872	-1.024 (0.8930)
InPT	0.657	2.145 (0.0032)***
Constant	-0.321	-1.881 (0.0362) **

Source: Author's Computation from E views 10,

Note: ***, **, * implies 1%, 5% and 10% level of significance,

Table 5 above shows that the long-run coefficients of advisory services, group membership and pre-loan training are less than 0.05(coeffs. < 0.05) and are significant and positive. The equivalent is that the more these non-financial services are offered, the more the profitability of SMEs. However, cross guaranteeship was not significant and it is negative and by implication, it does not have any substantial effect on the profitability of SMEs in the long run.

Discussion of Findings

The study is on the effects of monetary policy on Microfinance Banks' credit and the performance of small and medium scale enterprises in Ekiti State, South -west Nigeria. The research is undertaken to provide answers to the questions, "what is the relationship between Microfinance Banks' credit and profitability of small and medium scale enterprises in Ekiti State, South west Nigeria?" and "Is there any effects of microfinance banks' non-financial services on profitability of small and medium scale enterprises in Nigeria? Or is there any effects of monetary policy on microfinance banks' credit in Ekiti State, South west Nigeria"?

The general objective of the study is to investigate the effects of monetary policy on Microfinance Banks' credit and the performance of small and medium scale enterprises in Ekiti State, South –west, Nigeria. The specific objectives of the study include examining the nexus between Microfinance Banks' credit and profitability of small and medium scale enterprises in Ekiti State, South-west Nigeria; and investigating the effect of microfinance banks' non-financial services on profitability of small and medium scale enterprises in Ekiti State, South-west, Nigeria.

In order to achieve the stipulated objectives, testable hypotheses were formulated to investigate: the objectives. The hypothesis one of the study states that there is no significant relationship between Microfinance Banks' credit and profitability of small and medium scale enterprises in Southwest Nigeria. The result shows that there is a high positive significant relationship between Microfinance Banks' credit and profitability of small and medium enterprises in Ekiti, Southwest, Nigeria. The finding outcomes establish the intended postulation that there was a significant correlation between microfinance banks' credit and performance of SMEs in Nigeria. This implies that SMEs cannot grow substantially in terms of profitability and in other areas without a good and remarkable support from the microfinance banks. The role performed by microfinance banks credit is monumental and must be given credence in considering the level of profit base of the small and medium scale enterprises. Moreover, the result outcome also confirmed the finding of this study that loans from the microfinance institutions enhance the level of production of the small and medium scale enterprises which ultimately result to increase in profitability and improvement in their general operations of the enterprises.

The second hypothesis of the study states that there is no significant relationship between microfinance banks' non-financial services and the profitability of small and medium scale enterprises. The result indicates that there was a strong positive significant relationship between microfinance banks' non-financial services and profitability of small and medium scale enterprises in South-west Nigeria. This finding was corroborated by result outcome who posited that microfinance banks non-financial services impact significantly on the development of SMEs. This shows that non-financial services provided by microfinance banks will go a long way in boosting the performance of the SMEs, especially those that are new among them. Services such as pre-loan training, consultancy services on the type of plausible business to venture into and advisory services on how to make judicious use of whatever credit facility the SME operators have access to will go a long way in improving their production capacity and ultimately credit worthiness.

4.7 Summary of Findings and Conclusion

The following findings were made in the course of this study:

First, it was found that there was a positive significant relationship between microfinance banks' loans and advances, savings, interest rate and profitability of small and medium enterprises in Ekiti State, South-west, Nigeria. This implies that profitability of small and medium enterprises is predicated on their accessibility to MFBs' credit and the rate of interest charged on their credit facilities. Therefore, the need to ensure that credit facilities are accessible to SMEs at interest-friendly rates is non-negotiable and must be taken into consideration. This study has further shown that the more the credit facility available to the SMEs, the more they are able to optimize their production capacity, hence their profitability. Secondly, it was found that there was a significant long-run relationship between non-financial services of microfinance banks and profitability of small and medium scale enterprises in Ekiti State, South-west Nigeria. The findings of this study have shown that non-financial services of MFBs are important to the profitability level of SMEs and therefore, there is need for the MFBs to continue to improve on these non-financial services.

Recommendations

To ensure maximum performance of small and medium enterprises in terms of profitability and market size, there is need for microfinance banks to make available sustainable credit facilities to SMEs. This can be done in different forms through loans and advances. It is worthy of note that credit facilities of the microfinance banks would improve the market size and profit margin of the small and medium scale enterprises.

Therefore, subject to the above findings, the following recommendations are made:

1. That government should formulate policy that would make business activities of small and medium scale enterprises amenable and easy to conduct.
2. That credit facility which is interest friendly should be made available by the microfinance banks to small and medium scale enterprises.
3. The requirements for accessing credit facilities should be less stringent to allow every small and medium enterprise owner access credit without restriction.
4. That adequate sensitization should be made by the microfinance banks to educate the owners of small and medium scale enterprises on the various facilities available and how to access it.

REFERENCES

[1] Abereijo, O.A. and Fayomi, O. (2009(. Innovative Approach to SME Financing in Nigeria: A Review of Small and Medium Industries Equity Investment Scheme (SMIEIS). Journal of Social Sciences, 11(3), 219 - 227.

[2] Ajisafe, R. A., & Folorunso, B. A. (2002). The relative effectiveness of monetary policy in macroeconomic management in Nigeria. Africa Economic and Business Review. 3, (1)

[3] Akingunola, R.O. (2011). Small and Medium Scale Enterprises and Economic Growth in Nigeria: An Assessment of Financing Options. Pakistan Journal of Business and Economic Review, 2(1).

[4] Almeyda, G. & Branch, B. (1999). Sustainable banking with the Poor, Case Studies in Microfinance, Guatemala: The Case of Unión Popular and Unión Progresita Amatitlaneca (UPA) Credit unions. The World Bank, Washington.

[5] Anastasia, A. (2008). Measuring the Impact of Human Resources Management on Organizational Performance University of Macedonia (GREECE). Journal of Industrial Engineering and Management 01 (02): 119-142- ISSN: 2013-0853.

[6] Bencivenga, V. & Smith, B. (1991). Financial Intermediation and Endogenous Growth. The Review of Economic Studies, 58, 195–209.

[7] (Carr. J &. Tong, Z. (2002). Microcredit and Poverty Alleviation, The Case of Bangladesh. www. Researchgate.net (7).

[8] Central Bank of Nigeria (2013). Draft National Microfinance Policy and Regulatory Guidelines for Nigeria.

[9] Central Bank of Nigeria (2005). Report from microfinance policy and programme development committee: January.

[10] Central Bank of Nigeria (2006). Guidelines and procedures for the establishment of microfinance banks in Nigeria.

[11] Canadian International Development Agency (CIDA) | Springer Link, link.springer.com Dalmar, E. (1946). Expansion and employment. America Economic Review, 19(37), 34-55.

[12] Harrod, R. F. (1939). An essay in dynamic theory. The Economic Journal. 49(193), 14-33.

[13] Hamid, E. S. and Susilo, S. (2010). Strategi Pengembangan Usaha Mikro Kecil dan Menengah di Provinsi Daerah Istimewa Yogyakarta.JurnalEkonomi Pembangunan, 12(1), 45-55.

[14] Hassan M.A and Olaniran S.O. (2011). Small Business Entrepreneurs Through AssistanceInstitutions: the Role of Industrial Development Centre, Osogbo, Nigeria. International Journal of Business and Management, 6(2), 213-226.

[15] Hossain, M. (2008). Nature and impact of green revolution in Bangladesh. IFPRI and BIDS Research Report No. 67. Washington, D.C: International Food Policy Research Institute, Dhaka: Bangladesh Institute of Development Studies.

[16] Janson, T. (2002). Performance Indicators for MFI's: Technical guide. Micro rate and Inter-American Development Bank. Washington, DC available at www.microrate.com {Accessed online 12/3/2020}

[17] Joseph, T.O. and Dansu, F.S. (2013). SMEs, Business Risks and Sustainability in Nigeria.European Journal of Business and Social Sciences, 2(9), 76-94.

[18] Katua, N. T. (2014). The Role of SMEs in Employment Creation and Economic Growth in Selected Countries.International Journal of Education and Research, 2(12).

[19] Kimemia, J. M (2004). Factors affecting Accessibility of Micro Finance Funds.Strategic journals.com

[20] Micro submit (2002). Preceedings of the 35th Annual ACM/IEEE International Symposium.

[21] Mosley, P. (2014). Microenterprise finance. Is there a conflict between growth and poverty alleviation? World Development. 26(50), 783-790.

[22] Nnana, O. J. (2004). Financial sector development and economic growth in Nigeria: An empirical investigation. Economic and Financial Review. 42(3), 1-17.

[23] Obasan, K. A. & Arikewuyo .K. A. (2012). The Effect of Pre-post Bank Consolidation on The

[24] Accessibility of Finance to SMEs in Nigeria. Business and Management Research, 1(3), 108-120.

[25] Obiwuru, T., Okwu, A., Akpa, V. & Nwankwere, I. (2011). Effects of leadership style on organizational performance: A survey of selected (SSE) Lagos Nigeria. Australian Journal, of Business and Management Research. 1(7), 100-111.

[26] Otero, M. (1999). Bringing development back into microfinance. Journal of microfinance, 3(5), 19-30.

[27] Rosli, M. (2011). Determinants of small and medium enterprises in the Malaysian auto parts industry. African Journal of Enterprises management, 8235-241, 5(20).

[28] Sinha. D, & Martin, B. (1998). Informal Credit Transactions of Micro-credit Borrowers in Rural Area. OnlineLibrary.willy.com

[29] Susilo,S.Y. (2010). Peran Perbankan Dalam Pembiayaan UMKM di Propinsi DIY. Journal Keuangandan Perbankan, 14(3), 467-478.

[30] United Nations (2005). Building inclusive financial sectors to achieve the millennium development goals. International Year of Micro-Credit. New York.

[31] Yaron, J. B. (1998). Rural finance uses designed and world practice. Washington Agricultural Natural Resources Development.

[32] Williams, J. & Anderson, E. (1991). Job satisfaction and organizational commitment as predictor of organisational citizenship and in-role behaviours. Journals of management, 17(3), 7-55.