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MICROFINANCE POLICY REFORMS AND SMALL AND MEDIUM ENTERPRISES FINANCING IN NIGERIA: A DUMMY VARIABLE REGRESSION APPROACH

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Abstract

SMEs financing by formal financial institutions started in the year 1992 when community banking scheme was still in vogue. In year 2005 however, microfinance banking was introduced through another policy reform, the effect of which all existing community banks were asked to transform to microfinance banks provided they met the requirements of the CBN. Despite the reform efforts of government in the area of micro financing little success story has been recorded regarding SMEs financing in Nigeria. Therefore, the study is designed to examine the effect of microfinance policy reforms on MFBs loans to SMEs and the impact of microfinance policy reforms on SMEs deposits with MFBs in Nigeria. To achieve this, time series data were collected on microfinance loan to SMEs from CBN statistical bulletin covering a period of twenty three years from 1992 to 2014. The data were analyzed using dummy variable regression approach (ANOVA model) to see the regime effect of both community banking and microfinance banking on the finance of SMEs in Nigeria. Hypotheses were tested at 5% level of significance and both the two hypotheses are found to be significant. The result of the revealed that microfinance policy reform impact significantly on MFBs loan to SMEs as well as on the deposit liabilities with MFBs. The study concludes that microfinance reforms have positive impact on SMEs financing in Nigeria. Based on the findings of the study, it is recommended that the CBN should through policy meosures strengthen the microfinance banks in Nigeria to enhance their lending capacity to the SMEs sub sector; Microfinance banks should improve on their monitoring and supervision of loan disbursement and repayment to ensure that the depositors' funds are not unnecessarily endangered as this will increase their loanable fund when depositors confidence is enhanced.

Key words: *Microfinance, Reforms, Community banking, SMEs Growth, Nigeria.*

Introduction

Microfinance institutions play important role in the growth of Small and Medium Enterprises (SMEs) of any nation. These institutions are major providers of finance for SMEs particularly in the developing economies like Nigeria. In fact, the import of the Microfinance banks (MFBs) and other microfinance institutions is mostly felt in the cheaper rate loans which constitute a source of funding small scale entrepreneurs, farmers, and small business owners in rural villages who represent a considerable proportion of a country's population. This implies that the future of such country may be tied to the economic uplift of this sector. In Nigeria according to CBN (2005), only 35% of the economically active population enjoyed the services of formal financial institutions and the remaining 65% were for a very long term served by the informal sector. This thus made it difficult for the regulatory authority to exercise one aspect of its mandate that is promoting monetary stability and a sound financial system. Going by this CBN statistics it means a large percentage of economically active population mostly small entrepreneurs has been having serious headache in accessing credit (a major factor of production) from formal financial institutions. This no doubt inhibits their survival and growth over the years. It is in the light of these that the Government of Nigeria through her policies, reforms and programmes introduced formal microfinancing scheme to promote the growth of the SMEs and the economy at large.

The Nigerian government in her efforts to promote economic growth through adequate financing of small and medium enterprises (SMEs) has over the years embarked on series of economic programmes (Anyawu, 2003). Some of the programmes include introduction of rural banking scheme, establishment of Peoples Bank, operation feed the nation (OFN), green revolution, Nigerian Bank of Commerce and Industry (NBCI), Nigerian Agricultural and Cooperative Bank, Nigerian Economic Reconstruction Fund (NERFUND), Nigerian Directorate of Employment (NDE), Family Economic Advancement Programme (FEAP), Poverty Alleviation Programme (PAP), Nigerian Industrial Development Bank (NIDB), Bank of Industry (BOI), Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB), community banking and microfinance banking (Anyawu, 2003).

Many of the programmes and policies introduced failed to achieve the objectives for which they were established and were scrapped. One of such was community banking scheme which was introduced in the 1990s but was replaced by the microfinance banking system due to the relentless effort of

the Central Bank of Nigeria to reform the banking sector for sound practices. Community banks failed to meet the financial requirement of small entrepreneurs who could not access the financial assistance from commercial banks due to many reasons ranges from lack of collateral, high cost of loan administration to large number of SMEs, to cumbersome paperwork involved in credit arrangements. As a result, microfinance policy reform brought about microfinance banking in 2005 which has as one of its policy objectives enhancing service delivery by microfinance institutions to micro, small and medium entrepreneurs (CBN, 2005). Since year 2005, microfinance banks in Nigeria have been performing their financial intermediation role particularly in the area of SMEs financing.

Despite the programmes, policies and reforms of government in the area of microfinancing tailored towards the growth of SMEs and consequential economic growth, little story has been recorded of the success of SMEs in Nigeria due to their low level of contribution towards the nation's gross domestic product (GDP). Nwanyanwu (2011) reported that the aggregate micro credit facilities in Nigeria accounts for just about 0.2 percent of GDP and less than 1% of total credit to the economy. One of the major problems attributed to the slow growing of SMEs in Nigeria is finance. It therefore poses some economic questions as to the efficacy of reform policies that have been introduced over the years. The focus of this paper is on two reforms; community banking and microfinance banking schemes in Nigeria. It is against this background that the study seeks to answer the following research questions.

Research Questions

Based on the above problem, the study is conducted to provide answers to the following research questions:

i. What is the impact of microfinance policy reforms on SMEs financing in Nigeria?
ii. Do microfinance policy reforms have effect on SMEs deposits with Microfinance banks in Nigeria?

The assumption here is that total deposit liabilities with microfinance banks in the periods under review come from SMEs.

Objectives of the Study

The main objective of this study is to assess the impact of microfinance policy reforms on SMEs financing in Nigeria during both community and microfinance banking eras. Specifically, the study seeks to:

i. examine the effect of microfinance policy reforms on MFBs loans to SMEs in Nigeria;
ii. examine the impact of microfinance policy reforms on SMEs deposits with MFBs in Nigeria

Hypotheses of the Study

H_{o1}: microfinance policy reform has no significant effect on loan given to SMEs by MFBs in Nigeria
H_{o2}: Microfinance policy reform has no significant impact on the SMEs deposits with MFBs in Nigeria.

Review of Literature

Concept of Microfinance: Meaning, Features and Types

The concept of microfinance has been discussed extensively by many authors and researchers. According to Lard and Barres (2007), microfinance is the supply of loans, savings and other basic financial services to the poor. Khandker (2005) defines microfinance as that programme which involves small-scale transactions in credit and savings designed to meet the needs of small and medium scale producers and businesses. Locally, microfinance has been defined differently by different agencies and researchers. For example, CBN (2005) views microfinance as the provision of financial services to the poor who are traditionally not served by the conventional banks. According to Acha (2012), microfinance is a poverty alleviation strategy which operates by providing credit and other financial services to economically active but low income households and their businesses. These two definitions point to the fact that microfinance is a financial service strategy targeting the poor and small business owners in any country. Supporting this view, Onakoya and Onakoya (2014) see microfinance to be subdivision of financial sector that focuses on fighting poverty by filling the credit unavailability gap created by the conventional banks. Microfinance has to do with making small loans available to the poor not served by traditional banks designed specifically

meet their needs and circumstance (Khan, 2008). Alalade, Amusa and Adekunle (2013) state that microfinance was initially restricted to the provision of very small loans to the poor for productive purposes. The definition was later broadened to include credit savings opportunities, insurance and money transfers. Summarily microfinance is the provision of micro credit and other financial services to the poor, low income earners and small business owners. For the purpose of this study, microfinance is interpreted in line with the definition of Khandker (2005).

Microfinance features a number of characteristics as discussed in literature. Ogunleye (2009) identifies some of these features which distinguish microfinance from other financial products as the smallness of loans advance, smallness of savings collected, absence of asset based collateral, and simplicity of operations. The size of deposits and lending is relatively low compare to those obtainable in the conventional bank. Unlike commercial banks, no asset based collateral is required and the ability of ability to access financial services depends largely on social relations.

The term microfinance has been classified into three distinct types. Formal, semi-formal and informal (Aderibigbe, 2001). A formal microfinance includes services provided by organisations which are subject to CBN and NDIC regulations and supervisions. Semi-formal are those whose services are not regulated by the regulatory bodies but whose activities are supervised by government agencies. While the informal microfinance are community managed credit and savings associations that are established to improve members access to financial services.

The significance of microfinance became more popular after 1976 breakthrough of Muhammad Yunus of Bangladesh with his Grameen model and loan circle innovation to the poorest Bangladeshi entrepreneurs (Adams & Raymond, 2008). Since that time microfinance has become a serious subject of academic research both in the developed and developing market; microfinance is now seen as both a tool for poverty alleviation as well as for post-conflict reconciliation in the developing countries (Ahmeti, 2014). It should be noted that making generalisation on a cross country importance and impact of microfinance is difficult as the impact is felt differently across borders. Literature has however highlighted a number of assumptions for the impact of microfinance in any country to be realized. "first, microfinance reaches the poorest of the poor and/or micro entrepreneurs; second, the entrepreneur will fund their enterprise with the loan they received for that purpose; third, the entrepreneur will continue to reinvest in the business with profits; and fourth, as the profits increase, the entrepreneur will break

the vicious poverty cycle by investing their profits in education and health services for him or herself and his or her children" (Lard & Barres, 2007). Despite the flaws of these assumptions, microfinance still has significant importance in SMEs and economic growth of any nation.

Microfinance Reforms in Nigeria

In the year 2005, the Central Bank of Nigeria issued the microfinance policy, regulatory and supervisory framework as part of banking sector reforms tailored towards achieving a considerable level of financial inclusion. This policy was aimed at expanding the financial infrastructure of the country to meet the financial requirements of the SMEs (CBN, 2005). The policy established microfinance banks to replace the community banks that were previously in existence. Deposit Money Bank (DMB) wishing to engage in microfinance services can continue to do so through a designated Department/Unit and/or offer microfinance as a financial product. Nothing prevents the Holding Company having a DMB as a subsidiary from investing in or owning an MFB (CBN, 2011).

Community Banking System

Community banking as a feature of any sound banking system occupies a central position in the financing of SMEs both in the developed and developing economies. In the United States for example, Community banks (CBs) contribute significantly to SMEs financing and growth. According to Lux and Greene (2015), Community banks provide 77 percent of agricultural loans and over 50 percent of small business loans in the United States of America.

Community banks have through the history enjoyed some direct contact competitive advantage as regards provision of banking services. The competition within the community bank sector has been typically geographically centered to a specific community (Kagan, Acharya, Rao & Kodepaka, 2005). This has allowed the financial institution to establish a strong knowledge base on local business requirements and develop products and services that were oriented towards the local community. Noting the importance of community banks in achieving greater financial inclusion especially to the small business entrepreneurs and the attendant impact on the entire economy, the banking system was introduced in Nigeria. The national board for community banks set up by decree 46 of 1992 was saddled with the duties of promoting, developing and supervising the

community banks (CBs) in Nigeria (Yunusa, 1998). Community banking in Nigeria, according to Yunusa (1998) was designed to meet the requirements of small entrepreneurs who dominate the informal sector where many economic activities are carried out within a largely peasant mode of production. From 1992 to 2005, community banks have granted noticeable amount of micro credit to SMEs in Nigeria and the extension of credits continues even after the conversion to microfinance banks (MFBs) in 2005 (CBN, 2014). However, with reforms such as deregulation of banking industry, adoption of universal banking, there tend to be increased competition even in the small business lending markets which used to be mainly served by the local community banks (Beck, 2001). It could be rightly said that the failure of community banks to cope with the rising competition led to the introduction of microfinance banking on the heels of bank consolidation reform in 2005.

Microfinance Banking in Nigeria

Microfinance banking started in Nigeria as a reaction of CBN towards the perceived deficiencies in the existing financial alternatives available to the poor and small businesses (Acha, 2012). His position was predicated on the CBN's claim on the justification for the establishment of microfinance banks. According to the microfinance policy, regulatory and supervisory framework, weak institutional capacity, weak capital base, existence of a huge un-served market, the need to increase savings opportunity were among the key reasons for the adoption of microfinance banking in Nigeria (CBN, 2005). Under this policy, microfinance banks were licensed and began operation in 2007. All previously existing community banks were asked to transform to microfinance banks once the requirements of the new policy are met. Also, the then universal banks engaging in microfinance services were required to set up a unit/department for that purpose.

Addressing the issue of poor capital base in the former arrangements, new capital base was set for microfinance banks in the new reform. For a microfinance bank to operate as a unit bank (in form of old community bank), it must have a minimum paid up capital of N20 million naira. A unit bank is a microfinance bank that operates from one location with a minimum paid up capital of N20 million. State microfinance banks on the other hand are allowed to open branches at different locations within a State and with a minimum paid up capital of N1 billion. In 2011, CBN assessed the activities of microfinance banks in Nigeria and gave a new categorization to the financing window as unit, state and national (CBN, 2011).

Unit Microfinance Bank: A Unit Microfinance Bank is authorized to operate in one location. It shall be required to have a minimum paid up capital of N20 million (twenty million Naira) and is prohibited from having branches and cash centres.

State Microfinance Bank: A State Microfinance Bank is authorized to operate in one State or the Federal Capital Territory (FCT). It shall be required to have a minimum paid up capital of N100 million (one hundred million Naira) and is allowed to open branches within the same State or the FCT, subject to prior written approval by the CBN for each new branch.

National Microfinance Bank: A National Microfinance Bank is authorized to operate in more than one State including the FCT. It shall be required to have a minimum paid up capital of N2 billion (two billion Naira), and is allowed to open branches in all States of the Federation and the FCT, subject to prior written approval by the CBN.

A microfinance bank in one category can transform to another once it meets the regulatory requirements for transformation. All these are being done to permit greater level of financial inclusion. With less than a decade of microfinance banking in Nigeria, some achievements have been recorded particularly in the area of SMEs financing even in the eyes of several challenges.

Concept of Small and Medium Enterprises (SMEs)

There is no generally accepted definition for term small scale business. The criteria for defining an enterprise as either small or large scale vary from one country to another, and depending on whether the country is developed or developing. A large scale business to one country may be a small-scale business to another. Thus each country has well defined criteria for the size of business that can be regarded as small scale. In USA for instance, a small business is the one with less than $10 million in annual sales, fewer than 1000 employees and which does not dominate the industry (Holt & David, 2002). Also in Bangladesh, it is referred to as an enterprise with fewer than 50 workers excluding those in cottage unit and/or with a fixed capital investment of less than TK100 million, approximately $1.5 million (Government of Bangladesh Industrial policy,2005 cited in Hosein and Uddin, 2006). Anyanwu, Offor, Adesope, and Ibekwe (2013) report that the European Commission (EC) recognized a small scale enterprise as one with 10-99 employees. In Nigerian, precisely 1992 the National Council on Industry attempted to remove the ambiguities in the definition of small scale business and thus defined Small Scale Enterprises as those with fixed assets above N1million but not exceeding N10 million, excluding land but including

working capital. The definition was revised in 1996 with Small Scale Industry defined as those with total cost, including working capital but excluding cost of land above N1 million but not exceeding N40 million with a labour size of between 11 and 35 workers. At the 13th Council meeting of the National Council on Industry held in July, 2001, Small scale enterprise was defined by the Council as that with a labour size of 11-100 workers or a total cost of not more than N50 million, including working capital but excluding cost of land. Gulani and Usman (2012), 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. This study adopts the definition of small scale enterprise as given by the national council of industry.

Small and Medium Enterprises (SME) have been reported in World bank (1995) to account for about 70 percent of industrial employment with about 22 percent of the adult population being provided with employment in developing countries (Daniel & Ngwira, 1993). This position was buttressed by Udechukwu (2003) that small scale enterprises account for well over half of the total share of employment in most countries. Amana (2004) posits that apart from employment, Small scale enterprises are also very important because they are the engines of innovation in any economy. He explained further that even in developed economies, most companies started up as small businesses before they grew over time into the large companies as we have today. For example, Hewlett Packard (HP) Company, a Fortune 100 Company that is the second largest computer company in the world, started in a garage in California as an SME founded by two friends, Bill Hewlett and David Packard in the 1950s with only $5,000 in borrowed funds (Oduyoye, Adebola & Binuyo, 2013). Also, analysis of food production in Nigeria shows that a larger proportion of about 80-90 percent is from small scale farmers (Ajayi, 2001), as the production of goods and services in the most efficient manner has continued to remain as one of the most viable and reliable option for development, growth and survival of any economy. These explain the indispensable role of small scale sub-sector in the economic growth and development of any nation accompanied with the improvement in the living standard of citizenry.

Microfinance Banks and SMEs in Nigeria

Microfinance banks play significant role in the growth of SMEs in any country. In Nigeria however, SMEs sub sector has not been able to record a successive growth over the years. This has been attributed to their poor

access to credit by formal financial institutions. More so, the available microfinance institutions prior to year 2005 could not fill the gap (Akpan & Nneji, 2015). It is worthy of note that when there is no adequate finance, businesses especially the small ones cannot grow. This was the view of Olowe, Moradeyo and Babalola (2013) who stated that poor of access to financial institutions inhibits the ability of entrepreneurs in Nigeria to engage in new business ventures, slow their contribution to economic growth and in fact, entrepreneurial activities are neither financially nor environmentally sustained. In response to this financial exclusion, CBN came up with reform to microfinance activities in Nigeria to enhance its contribution to SMEs. Microfinance banking was adopted in 2005 and between 2006 and 2010, 866 microfinance banks have been licensed providing a variety of micro finance services to SMEs in Nigeria. Small entrepreneurs have been according themselves the advantage of the opportunities offered by increasingly demanding for financial services such as credit, savings, payment services and many more financial and non financial services (CBN, 2011).

Theoretical framework

The study is carried out within the framework of financial intermediation theory. Financial intermediation has to do with the mobilization of funds from surplus unit to the deficit unit of the economy thereby facilitating economic growth. According to Andrie (2009), the theory of financial intermediation can be traced back to the work of Gurley and Shaw (1960) and it emphasizes the role of financial intermediation in the growth of any economy. The building blocks of this theory are the information asymmetry and agency theories. Information asymmetry (lack of complete information) constitutes a major factor necessitating the existence of financial intermediaries as they exist to distribute information (Leland & Pyle 1977). Information asymmetry is a deviation from the neo-classical theory of perfect market, which assumed complete availability of information. This deviation from the perfect market assumption resulted in high transaction cost of sourcing fund through direct (unintermediated) market. It may therefore be implied that financial intermediation theory is founded on the argument of transaction cost (Beston & Smith, 1976). These two arguments are however interrelated because banks through intermediation help to reduce costs on the part of fund providers. The reduction in transaction costs unveils the information provision functions of banks (Andrie, 2009).

The theory is used in this study to explain the role of microfinance banks in the financing of SMEs in Nigeria. Microfinance banks are part of financial

intermediaries in the Nigeria banking industry and they facilitate the movement of funds to small business enterprises. This provides SMEs the opportunity to access finances at a reduced cost that would not have been possible if no such intermediary exists. To ensure the sustainability of financial intermediation especially in the microfinance subsector, sound reforms must from time to time be put in place. This is in fact evident in the CBN's microfinance policy reform of 2005 which featured the end of community banking system in Nigeria.

Empirical Evidences

Many researchers have worked on microfinance and SMEs both in Nigeria and abroad; reports have been given on the importance of microfinancing on the financing, growth and survival SMEs. While investigating the effect of microfinance on micro and small business growth in Nigeria, Babajide (2012) employed panel data and multiple regression approach to anaylse a survey of 502 randomly selected enterprises financed by microfinance banks in Nigeria. The study found a positive impact on SMEs and recommended a reform in form of recapitalization of microfinance to enhance their financing capacity in support of small businesses in Nigeria. Furthermore, an empirical study by Olowe, Moradeyo and Babalola (2013) on the impact of microfinance on small and medium growth in Nigeria buttresses this fact. The study investigated the impact of microfinance on SMEs growth in Nigeria. Eighty two SMEs were selected through simple random sampling technique; pearson product moment correlation as well as multiple regression analysis were used to analyze the data collected. The study found a positive significant impact of MFBs financial services on SMEs growth in Nigeria.

Having analysed the impact of microfinance on SMEs, it is worthy of note to stress the need for regular reform of microfinance in Nigeria to enhance their finance provisioning capacity. This was the submission of Gallardo, Ouattara, Randhawa and Steel (2005) who stated that as MFIs grow and begin mobilizing commercial resources beyond grants, central banks are increasingly being called upon to regulate and supervise MFIs under existing or new legal and regulatory frameworks. Although many of the research works supported the positive impact of microfinance on SMEs growth, little had been said on the 2005 CBN's reform of microfinancing activities and its impact on the financing of SMEs in Nigeria, hence, the gap that this study sought to fill.

Methodology

The study employed dummy-variable regression (ANOVA model) approach to analyse the data collected from secondary source. The aim is to analyse the regime effect of the two policy reforms. Data on loan to SMEs and total deposits of MFBs used to proxy the dependent variable as contained in the statement of asset and liabilities of MFBs were collected from CBN statistical bulletin of 2014. The study covers a period of twenty three years, from 1992 to 2014. Year 1992 was chosen because financing of SMEs by microfinance banks (then known as community banks) started that year. The coverage was limited to 2014 as the available data permits. The dummy regression approach involved one dependent variable and two independent variables as specified in the model.

Model Specification

SMEs Loan= f{Mfb, Cb}.....1

Econometrically, the model is specified as

$SMEs\ loan_t = \beta_0 + \beta_1 Mfb_{t1} + \beta_2 Cb_{t2} + £_t$ 2

Where;

SMEs loan = microfinance banks loan to SMEs in Nigeria

Mfb = microfinance banking policy (dummy 1)

Cb= community banking policy (dummy 2)

To avoid a near singular matrix however, a dummy variable, that is Cb is omitted from the model and the new regression model is stated as

$SMEs\ loan_t = \beta_0 + \beta_1 Mfb_{t1} + £_t$ 3

β_0 = the constant, which measures the average lending to SMEs during community banking (omitted variable) system

β_1 = the slope, which indicate the magnitude of difference in lending to SMEs during microfinance banking as compared to that of the reference category (the omitted variable), community banking system.

$£_t$ = error term which accounted for other factor affecting the dependent variable aside the independent variables.

For the second hypothesis, equation 3 is modified as

$SMEs\ Deposit_t = \beta_0 + \beta_1 Mfb_{t1} + £_t$ 4

Based on the above specifications, data were analyzed and the two stated hypotheses were tested. The data were analysed with the aid of E-view statistical package.

Result and Findings

The data collected for the study are analyzed and discussed in this section. Result of regression analysis and hypotheses tested are presented in the tables below.

Table 1: Analysis for Hypothesis one

Dependent Variable: LOAN
Method: Least Squares
Date: 10/05/15 Time: 12:55
Sample: 1 23
Included observations: 23

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5053.549	4645.941	1.087734	0.2890
MFB	50576.39	7427.049	6.809755	0.0000

R-squared	0.688301	Mean dependent var	24844.31
Adjusted R-squared	0.673459	S.D. dependent var	30420.65
S.E. of regression	17383.52	Akaike info criterion	22.44737
Sum squared resid	6.35E+09	Schwarz criterion	22.54611
Log likelihood	-256.1448	Hannan-Quinn criter.	22.47221
F-statistic	46.37276	Durbin-Watson stat	0.970364
Prob(F-statistic)	0.000001		

Source: Authors' computations (2015)

From table 1 above, the constant coefficient of 5053.549 is the average of the reference category (the omitted variable) in the regression equation 3. This indicates an average of about ₦5 billion loan granted annually to SMEs by community banks during the community banking policy in Nigeria. The coefficient of MFB given as 50576.36 represents the difference between average lending during microfinance banking and that of the community banking system. In other words, average lending to SMEs during microfinance banking in Nigeria is the addition of 5053.349 and 50576.39 representing about ₦56 billion annual loans to SMEs from 2006 to 2014 of microfinance policy in Nigeria. This shows that very large amount of money is being given to SMEs as loan with the adoption of microfinance policy. The reform that led to extension of microfinance banking to almost every part of the country unlike its concentration in the rural communities under the community banking policy may have brought about this margin.

Testing the significance of this effect statistically, the p-value is compared to 5% significance level (α=0.05). The p-value is found to be less than the level of significance as can be seen in table 1, implying a significant effect of microfinance policy reform on the size of loan given to SMEs by MFBs in Nigeria. Thus, the null hypothesis is rejected. R-squared of 0.69 indicates that 69% of the variation in the dependent variable (SMEs loan) is explained by the explanatory variable (microfinance policy). Also the F-statistic testifies to the overall significance of the model. This indicates that the model is well fitted.

Table 2: Analysis for Hypothesis two

Dependent Variable: DEPOSIT
Method: Least Squares
Date: 10/05/15 Time: 12:53
Sample: 1 23
Included observations: 23

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9372.930	5633.741	1.663713	0.1110
MFB	66165.53	9006.157	7.346699	0.0000

R-squared	0.719903	Mean dependent var	35263.79
Adjusted R-squared	0.706565	S.D. dependent var	38913.91
S.E. of regression	21079.53	Akaike info criterion	22.83293
Sum squared resid	9.33E+09	Schwarz criterion	22.93167
Log likelihood	-260.5787	Hannan-Quinn criter.	22.85777
F-statistic	53.97399	Durbin-Watson stat	1.109940
Prob(F-statistic)	0.000000		

Source: Authors' computations (2015)

Table 2 above presents the result on hypothesis two. It relates to the model specified in equation 4. From the table, constant coefficient of 9372.930 indicates the average deposit of about ₦9 billion naira was mobilized by community banks from 1992 to 2005 of community banking. The value 66165.53 which is the coefficient of independent dummy variable (microfinance banking) represents the difference between the average deposit during microfinance banking and that of the reference category, the excluded dummy variable (community banking). That is, average annual deposit mobilized by MFBs of ₦76 billion naira during the microfinance banking policy from 2006 to 2014. The p-value is also found to be less than α

of 0.05 indicating significance of the hypothesis. Therefore, microfinance policy reform has significant impact on the SMEs deposits with MFBs in Nigeria. R-squared of 0.72 indicates that 72% of the variation is explained by the independent variable. Also, F-statistic of 53.97; $p<0.05$ shows the significance of fitness of the model.

Conclusion and Recommendations

Access to finance has been considered as an important factor determining the growth of SMEs in any country. In Nigeria however, financing of SMEs was for a very long time been a burden for informal sector as formal institutions left them to themselves. This inadequacy in finance inhibits their growth and contribution to economic growth of the country. Government responded through its monetary agent, CBN by adopting of series of policy measures including community banking scheme, and more recently the microfinance policy reform. The aim was to improve financial inclusion in the society particularly for small entrepreneurs. This study assessed the impact of microfinance policy reform on SMEs financing in Nigeria. The study found that the reform has contributed greatly to credit accessibility of SMEs from MFBs in Nigeria as more loan and advances are being given by these banks since the reform of 2005. The reform impact is also felt in deposit mobilization as more funds are mobilized compared to what was obtainable during community banking scheme. This shows that the levels of financial intermediation as well as financial inclusion have increased.

From the foregoing, the study recommends that CBN should through policy measures strengthen the microfinance banks in Nigeria to enhance their lending capacity to the SMEs sub sector. Microfinance banks in the country are being called upon to improve on their monitoring and supervision of loan disbursement and repayment to ensure that the depositors' money are not unnecessarily endangered. This will also increase the level of public confidence in the banks and consequently more deposit will be mobilized, and their loanable fund will be increased. The study further recommends that microfinance banks should be encouraged to have more branches in the rural areas by transforming from being unit to state microfinance banks. This will improve level of intermediation and financial inclusion in the areas.

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