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Effects of Monetary Policy Instruments on Small and Medium Enterprises (SMEs) Loan Accessibility in Nigeria

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ABSTRACT

This study investigates effects of monetary policy instruments on the accessibility of loans by the SMEs. The study used ex-post facto research design and secondary data were sourced from the statistical bulletin of Central Bank of Nigeria from 1992 to 2018. The study adopted dynamic least square approach by employing multiple regression analysis. Multiple regression and Kao Residual Co-integration Test were employed as data estimation techniques. The study indicated that there was long run relationship between monetary policy instruments and credit given to SMEs in Nigeria during the period. Also, it is indicated that money supply and liquidity ratio have positive and significant effect on loans to SMEs for the period under study but monetary policy rate has a negative and insignificant effect on loans to SMEs. The study suggested that there is need for the monetary authority to realign monetary policies especially the monetary policy rate in a way that it will promote high fund mobilization from all economic sector in order to improve the activities of SMEs to desired position. Also, the Central Bank of Nigeria needs to develop and monitor the monetary policy instruments focusing monetary policy rate to strengthen the financial institutions in the country in discharging their function of financial intermediation.

Keywords: Credit to SMEs, Liquidity Ratio, Monetary Policy Instruments, Money Supply, Monetary Policy Rate

1. INTRODUCTION

One of the traditional roles of Central Bank of Nigeria since its inception is the regulation of money supply in the economy. This role has to do with the employment of monetary policy instruments. Monetary policy is aimed at stabilizing the fluctuations in the economic activities. As a technique of economic management, monetary policy is employed towards achievement of growth and development of an economy. Therefore, Onwuteaka, Okoye, and Molokwu (2019); Khaysy and Gang (2017) pointed that monetary policy has to do with the regulation of stock of money, inflationary rate, credit supply, interest rate on credit, external debts and price index. As noted by Onwuteaka et al. (2019), monetary policy is a key element of managing an economy to bring stability and development via macroeconomic factors. Therefore, the instruments of monetary policy is employed by the apex bank to control creation of money, and stabilizing the lending rate, (Ufoeze, Odimgbe, Ezeabalisi, & Alajekwu, 2018; Alavinasab, 2016) and could affect the small and medium enterprises (SMEs) in terms of accessibility of finance. The goal of stabilizing the economy is to empower the SMEs and given the platform to mature into strong force that would reflect in the growth of the economy (Wakdok, 2018).

According to Imoughele and Ismaila (2014), finance is of the most important factor for SMEs growth and survival in a turbulent economy. Finance is the backbone of SMEs and any other business enterprise (Okunbanjo, 2019). The need to access funds by the SMEs is very important due to the role of SMEs in a developing economy like Nigeria (Ogujiuba, Ohuche & Adenuga, 2014). This is buttressed by Thaku (2017); Awoniyi (2010) when they asserted that SMEs serve as platforms for employment of labour, utilization of both physical and human resource which are important to the growth and development of an economy. SMEs are the nerve center of any economy. Therefore, for any economy to realize appreciable development, there is need to give attention to the SMEs especially in the area of financing. There is no how SMEs could influence an economy with being accessible to funds and funds cannot only be given as loan majorly through the financial sector or system.

Since the establishment controller of Nigerian economy in 1959, different measures or instruments of monetary policy has been employed. The CBN has employed both qualitative and quantitative instruments of monetary policy to achieve specific economic goals and objectives. Yet, the contextual observation revealed that SMEs operators still lament on their inabilities to access loan from the financial institutions in Nigeria majorly the deposit money banks (DMBs). This has made government to establish various institutions and formulated different policies such as microfinance bank, Nigerian Bank for Commerce and Industry, Small and Medium Enterprises Credit Guarantee Scheme (SMECGS), Traders' 'Moni', Kia Kia 'Moni',Small and Medium Enterprises Equity Investment Scheme (SMEEIS), Nigerian Industrial Development Bank, Small and Median Development Agency of Nigeria (SMEDAN), among others to assist the SMEs financially. Despite all these efforts by the government in this direction, the expansion of Nigerian SMEs is still insignificant and this has been attributed to unfriendly monetary policy.

Fasanyan, Onakoya and Agboluaje (2013) asserted that the focus of instruments of monetary policy employed by the Central Bank of Nigeria is solely on economic growth or development. This is evidenced that the central bank monetary policy does not center on how the SMEs could access loan which could enhance their business operations. There is no how SMEs could carry out any activity without finance and the access to the finance. It is imperative to ascertain how the monetary instrument employed by the manager of Nigerian economy influence loan accessibility of the SMEs.

It is evidenced that there are different literature on instruments of monetary policy in Nigeria and abroad. Despite the extant literature on this subject matter, it is observed that studies on the connection between monetary policy and SMEs loan accessibility are few. Most of the studies focused on monetary policy and the performance of SMEs and economic growth (Udoh, Gbande & Acha, 2018; Isola & Mesagan, 2018; Opuni & Edward, 2017; Atarere, 2016; Uremadu, Ani & odili, 2014) among other studies even with the studies of Abuka, Alinda, Minoiu, Peydro and Presbitero, (2019); Osakwe, Agbo and Okonkwo (2019); Ebire and Onmonya (2018); Nto, Mbanasor and Osuala (2012) that attempted to examine monetary policy and SMEs loan accessibility, mixed findings were revealed. It is on this note that this current study wants to add to the body of knowledge and confirm if similar results will be found. Hence, the essence of the study.

Based on this, the broad objective of the study is to investigate effects of monetary policy instruments capturing money supply, monetary policy rate, liquidity ratio on SMEs loan accessibility in Nigeria.

2. LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Monetary Policy

Nwoko, Ihemeje and Anumadu (2016) refers monetary policy as the combination of measures intended to normalize the supply of money, cost of money as well as the value of money in line with the level of an economy. It is also seen as the instruments of directing economic activities towards achieving price stability and growth in the economy (Onwuteaka et al., 2019). The Central Bank of Nigeria (CBN) sees monetary policy as the explicit measures employed to achieve fixed macroeconomic goals through stabilization of money supply. Monetary policy is the predetermined action of the controller of economy to impact the volume and cost of money towards accomplishment of macroeconomic objectives (Atarere, 2016). Monetary policy is a principal economic management tool that the controller of an economy uses to form economic performance (Udoh et al., 2018).

Monetary policy has its own objective to be achieved when employed by the monetary policy. According to Kahn (2010), monetary policy is set to manage the multiple monetary targets which covers price stability, achievement of full employment, business cycle flow, avoidance of financial crises, stabilisation of long-term interest rates as well as exchange rate normalisation. Irrespective of the objectives to be achieved by the monetary policy, Udoh, Gbande and Acha (2018) point that instruments of monetary policy could be in form of direct instruments or indirect instruments.

Direct instruments of monetary policy are aggregate credit ceilings, deposit ceiling, exchange control, restriction on the placement of public deposit, special deposits and stabilisation securities among others. Indirect instruments of monetary policy are open market operation (OMO), cash reserve requirement, liquidity ratio, minimum discount rate and selective credit policies. These imply that there are different instruments of monetary policy for achieving economic stability. For the purpose of this study, the quantitative instruments of monetary policy are adopted. Thus, money supply, monetary policy rate and liquidity ratio are selected as the instruments for monetary policy due to the important of the instruments in achieving desired economic performance.

2.1.1 Money Supply

Money supply can also be referred to as money stock', 'stock of money', 'money supply' and 'quantity of money'. Money supply is the total amount of money available in an economy at a particular point in time. It conveys the idea of a flow of money over time. Money supply is the total amount of money circulation in the economy. Money supply is' defined as currency with the public and demand deposits with commercial banks. Money supply is seen as M1, M2 and M3.

M1 denotes amount of money in currency including bank demand deposit. M2 denotes narrow money including M1, savings deposits as well as time deposits with foreign denominated deposits. M3 is a quantity of the money in circulation that consist M1, M2, large time deposits, institutional money market funds, as well as larger liquid assets. This study relies on M2.

2.1.1 Monetary Policy Rate (MPR)

Monetary policy rate is the interest rate at which the central Bank of Nigeria lends to the deposit money banks. MPR serves as a platform for other lending rate in Nigeria. Other lending rates in Nigerian economy are hanged on the MPR and it helps to normalize the flow of inflationary trend. MPR serves as a CBN authorized rate of interest which determines banks' lending rate on credit to their customers. In 2006, Minimum rediscount rate (MRR) was changed to monetary policy rate by the apex bank.

2.1.2 Liquidity Ratio

Liquidity ratio is the bank regulation policy by the monetary authority that set the minimum reserves deposit money bank must hold**.** Liquidity refers to the quickness in the transfer of assets into cash to enhance cash flow. It is an indicator to measure a company's ability to meet its short-term liabilities. According to Nkemakolam (2018), liquidity ratio is a key management ratio to sustain sound financial stability of the organization and which include current ratio, quick ratio and acid test ratio that also affect the profitability of organization. The inability of a firm to maintain reasonable and stipulated liquidity to meet the demand of customers/depositors/suppliers and other short term expenses might affect the survival, growth, performance and profitability levels of the organization. It is therefore important to maintain good liquidity base in order to meet all short term obligations which is why the controllers of economies set a liquidity rate for the financial institutions.

2.2 Small and Medium Enterprises (SMEs) and SMEs Loan Accessibility

SMEs have been given different definitions in line with the state of the economy of the scholars or researchers. In Nigeria, the definitions of Small and Medium Enterprises Credit Guarantee Scheme (SMECGS) in 2007 stated that SMEs are business organisation with asset base (excluding land) of N5 million to N500 million and labour force of 11 to 300. The definitions of Small and Medium Enterprises Equity Investment Scheme (SMEEIS) in 2005 stated that as small business is a business venture that has N100million turnover and 1.5 million as asset base (excluding land and working capital). For the purpose of loan, the definitions given by the Central Bank of Nigeria in 2005 stated that SMEs are business enterprises with minimum turnover of N500,000 which land and working capital are included and maximum turnover of N5 million. For the purpose of deposit money bank loan to small businesses, small business is seen by the government as the business venture of N500,000. Small businesses are the profit oriented organisations with capital outlay of N2million at most excluding land. Despite different definitions, finance cannot be neglected in the activities of the SMEs in Nigeria. The study is seeing finance as a loan given to SMEs operators by the financial institutions.

Loans refer to the process of lending and borrowing of fund from financial able bodies such as banks, government, individuals and other financial institutions (Odufuye 2017). It can also be described as a means of getting finance for a particular period with the commitment to pay back as stipulated in the associated terms and conditions with the credit. SMEs loan accessibility implies the approachability of credit facility available to the operators of SMEs through institutions mentioned and through financial institution. It involves how the SMEs can have access to the availability of credit in the economy. García-Teruel and Martínez-Solano (2017); Abdulsaleh and Worthington (2013) mentioned that loan can be available to the SMEs via trade credit, debt financing, business angel, banks' loans, cash credit, overdraft among others.

Nwanyanwu (2010) noted that the financial sector supplies loan to the SMEs through its intermediation process of funds mobilization According to Osakwe et al (2019), the propensity to extend loans to borrowers is affected by availability of funds (liquidity), cost of funds which is interest rate that is determined based on the monetary policy rate (MPR). All these variables influence both the propensity to lend and cost of lending and is determined by the monetary authority in Nigeria

2.2 Theoretical Foundation

2.3.1 Credit Channel Theory

This theory was championed by Bernanke and Blinder (1988). This theory believes that credit creation of deposit money banks is influenced by the monetary policy formulated by the monetary authority in two channels that are interconnected. The channels are bank balance sheet channels and the bank lending channels. On the balance sheet channel, rise in the interest rate as a result of monetary policy degrades characteristics risk associated with the prospective borrowers through reduction in the current value of collateral. This implies that changes in the policies of monetary authorities affect the volume of credits that deposit money bank gives out to the public as loans. Therefore, credit channel theory focuses on external financing via the deposit money banks. On bank lending channels, as noted by Agbonkhese and Asekome (2013), the lending period of deposit money banks could be reduced during the restrictive monetary policy periods because the banks may experience high loan defaulters. This makes it difficult for SMEs operators to access loan in the financial sector. Bank Lending Channel assumes restrictive monetary policy to reduce the liquidity of the entire commercial banking system or to make the procurement of liquidity associated with lending more costly.

2.4 Monetary Policy Instruments and SMEs Accessibility of Loans.

Opuni and Edward (2017) studied the fiscal and monetary policies as they connected with the development of Ghanian small and medium enterprises (SMEs). Using primary data and linear regression analysis, it was identified that there is strong evidence of monetary and fiscal policies influence on employment growth of SMEs. Suleyman (2013) found that monetary policies have strong effect on commercial bank credit in turkey. Atarere (2016) used qualitative research approach to demonstrate that there is an influence of monetary policies on small and medium enterprises growth. The study of Kalu (2017) on monetary policy and private sector credit in Nigeria indicated that there is long and short run relationship between monetary policy and private sector investment. Ebire and Onmonya (2018) employed time series data in examining monetary policy and SMEs financing. The results showed that there is both positive and significant influence of rate of interest on the financing of SMEs. Interest rate has positive and significant effect on SMEs financing; there is negative but significant contribution of inflation on the financing of Nigerian SMEs. However, money supply and exchange rate results show an insignificant contribution to the financing of Nigerian SMEs. The studies of Ekpung, Udude and Uwalaka (2015); Ndugbu and Okeke (2015); Omankhanlen, Okorie and Taiwo (2015) indicated that monetary policy instrument is positively and significantly associated with Nigerian banks performance.

Abuka et al (2019) posited that contraction of monetary policy reduces bank credit supply and rejection of loan application in Uganda. Ovat (2016) revealed that loan accessibility is negatively but significantly caused by inflation rate. While exchange rate and interest were found to be statistically significant to SMEs credit. Udoh et al. (2018) displayed that there is a slight significant role of interest rate on the growth of SMEs, however, exchange rate and inflation rate do not have significant effect on Nigerian SMEs growth. Osakwe et al (2019) showed that monetary policy instrument- monetary policy rate and liquidity ratio have positive long run relationship with SMEs loan. The study concluded that the Vector Error Correction Mechanism (ECM) showed that monetary policy in Nigeria is a dependable mechanism for short term towards controlling banks in Nigeria vis-à-vis financial intermediation functions. Commercial bank credit has long run relationship with SMEs output (Imoughele & Ismaila, 2014) and economic growth (Afolabi, 2013).

It is evidenced that there are extant studies on monetary policy and its instruments. However, it is observed that most of these studies reviewed fail to capture how the instruments of monetary policy have influenced the accessibility of loan by the SMEs. Opuni and Edward (2017); Atarere

(2017); Suleyman (2013) focused on the growth and development of SMEs. Other studies such as Abuka et al (2019); Ekpung et al (2015) ; Omankhanlen (2015) among others focused on the banking industry. It is evidenced that much studies have not been carried out on how the SMEs owners can have access to the loans given by the deposit money banks. Studies that attempted monetary policy instrument in Nigeria and SMEs loan demonstrated mixed findings which create a concern on the actual connection between the two concepts or variables. Therefore, there is need for further clarifications on the connection between the instrument of monetary policy and loan accessibility of SMEs owners in Nigeria. Thus, the rationale for the study.

3 RESEARCH METHODOLOGY

The study adopted ex-post facto research design as it involves measurable analysis of historical economic data. The study made used of secondary data and data were collected on money supply, monetary policy rate, liquidity ratio as proxies for monetary policy instruments and loans to SMEs from 1992 to 2018 via the Central Bank of Nigeria statistical bulletin. In the year 1992, as noted by Okonjo-Iweala and Osafo-Kwaako (2007), Nigerian gross domestic product experienced constant growth. Based on this, the study began its period from the 1992 to 2018.

3.1 Model Specification

Based on the reviewed literature and theoretical deductions, the study adopted the model of Ebire and Onmonya (2018)

$$SMEsFint= \beta_o + \beta_1 M2t+ \beta_2 IRt+ \beta_3 INFLRt+ \beta_4 EXRt+ \varepsilon \quad (1)$$

In order to achieve the objective of the study, the model is thus remodified

Loans to SMEs=f(Monetary Policy Instrument)

Loans to SMEs=f(Money supply, monetary policy rate, liquidity ratio)

$$LSMEs= \beta_o + \beta_1 MS_2+ \beta_2 MPR_2+ \beta_3 LR_3+ + \varepsilon \quad (2)$$

Where LSMEs represents loans to SMEs; MS represents money supply; MPR represents monetary policy rate, and LR represents liquidity ratio

B_o represents constant parameter, β_1, β_2 and β_3 represent the parameters of the variables and ε represents the error term.

The study adopted dynamic least square approach by employing multiple regression analysis. Multiple regression was employed to identify the contribution of each independent variable to dependent variable when they are combined together. Also, the long run co-integration was also determined using Kao Residual Co-integration Test

4 RESULTS AND DISCUSSIONS

4.1 Descriptive Statistics for Monetary Policy Instrument and SMEs Loan Accessibility

The table 1 below displays descriptive statistics for monetary policy instrument and SMEs loan accessibility.

Table 1. Descriptive Statistics

	Loans to SMEs	**Money Supply**	**Monetary Policy Rate**	**Liquidity Ratio**
Mean	31578.70	7601.87	13.52	46.63
Median	20552.50	2637.91	13.50	46.80
Maximum	90176.50	24140.63	26.00	64.10
Minimum	10747.90	111.11	6.00	29.10
Std. Dev.	21754.11	8438.72	4.03	9.50
Skewness	1.133044	0.7662	0.88	-0.06
Kurtosis	3.659556	2.0548	5.18	2.50
Jarque-Bera	6.2664	3.6467	8.856	0.299
Probability	0.0435	0.1614	0.0119	0.861
Sum	852625.0	205250.4	365.00	1259.05
Sum Sq. Dev	1.23E+10	1.85E+09	421.37	2346.96
Observations	27	27	27	27

Source: E-View 8 Computation

Table 1 revealed the average credit to SMEs in Nigeria from 1992 to 2018 was 31, 578 naira with a minimum loan of 10,747 million naira and maximum of 90,176 naira. The average money supply was 7,601,867 million naira with a minimum of 111,110 naira and maximum of 24,140,630 naira. Similarly, the average monetary policy rate was 13.52% with a minimum of 6% and maximum of 26%. The average of liquidity ratio for the selected period was 46.63% with minimum and maximum of 29.1% and 64.1% respectively. The results further indicated that all the variables are normally distributed.

4.2 Unit Roots Test for Monetary Policy Instrument and SMEs Loan Accessibility

Table 2: Unit Root Test

	@Level		@First Difference	
	Statistic	Prob	Statistic	Prob
Loan to SMEs	-1.9436	0.6023	-6.8749	0.0000
Money Supply	0.0543	0.9947	-3.3467	0.0028
Monetary Policy Rate	-3.1825	0.1105	-9.0594	0.0000
Liquidity Ratio	-3.1504	0.1170	-0.50770	0.0023

Source: E-View 8 Computation

Table 2 presents the unit root test results using Augmented Dickey Fuller (ADF). The result is shown at level and first different of the data. The ADF test allows for heterogeneous coefficients with the null hypothesis that all series follow a unit root process and to reject this, the ADF probability value must be less than or equal the level of significance value of 0.05. The ADF test revealed that all variables are not stationary at level but stationary at first difference.

4.3 Long-Run Relationship

Having established the nature of the stationary of the data in the series, the study further tested the existence of co-integration in the behavioral pattern of the data through Kao Residual Co-integration. The results are presented in table 3

Table 3: Co-integration Test results

Hypothesized No. of CE(s)	**Trace Test Statistics**	**Prob**	**Max-Eigen Statistic**	**Prob**
None	52.25409	0.0020	29.46551	0.0087
At Most 1	22.78858	0.0761	14.16134	0.1623
At Most 2	8.627237	0.1920	8.592687	0.1400
At Most 3	0.034550	0.8791	0.034550	0.8791

Source: E-view 8 Computation

Table 3 presented the co-integration test using Kao Residual. The table showed the Trace test statistics and Max-Eigen Statistics with their probabilities. The results showed that 52.254 and 29.466 values for Trace Test Statistics and Max-Eigen Statistics are significant at 5% significant level respectively. This implied that the null hypothesis of no long run co-integration relationship is rejected. Thus, all the variables are co-integrated for dynamic panel analysis as they move together in the long run.

4.4 Regression Analysis

Having established the existence of long run relationship, the study proceeded in employing panel dynamic ordinary least square. Below, table 4 showed the results on panel dynamic ordinary least

Table 4: Panel Dynamic ordinary Least Square Results

Variable	**Coefficient**	**Std. Error**	**T-statistic**	**Probability**
C	0.676553	1.565653	0.432122	0.6758
Money Supply	1.352985	0.654277	2.067910	0.0436
Monetary Policy Rate	-0.001954	0.029524	-0.066169	0.9487
Liquidity ratio	0.033714	0.009965	3.383066	0.0081
@Trend	-0.168575	0.061882	-2.724146	0.0234
R-Square	0.878235		Mean Dependent	4.451304
Adjusted R-Squared	0.704796		S.D. Dependent	0.285487
S.E. of Regression	0.155113		Sum Squared Resid	0.216539
Durbin-Watson	2.439292		Long-Run Variance	0.016308

Dependent Variable: Loans to SMEs
Source: E-View 8 Computation

Table 4 showed the panel dynamic ordinary least squares of the study. The r-square as the coefficient determination is 0.8792 indicated that 87.92% of the variations in loans to SMEs is accounted by the monetary policy instruments-money supply, monetary policy rate and liquidity ratio. The results showed that money supply has a coefficient value of 1.3299 with t-statistics of 2.0679 at the 0.0436 p-value which is less than the 5% significant value. Monetary policy rate has co-efficient value of -0.0019 with t-statistics of -0.0662 at 0.9487 p-value which is greater than the 5% significant level. Also, liquidity ratio has a coefficient value 0.03371 and t-statistics of 3.38307 with p-value of 0.0081 that is less than the 5% level of significant value. Thus, it is indicated that money supply and liquidity ratio have positive and significant effect on loans to SMEs for the period under study but monetary policy rate have a negative and insignificant effect on loans to SMEs.

Thus, it could be said that not all instruments of monetary policy significantly and positively influence the amount of loans given to the operators of SMEs in Nigeria from 1992 to 2018.

4.5 Discussion of Findings

The management of Nigerian economy is an important task for the apex bank of Nigeria which is the Central Bank. Instruments of monetary policy being the tools used in stabilizing the economy, has been examined by scholars. The study demonstrated that a change in the unit of monetary policy instruments such as money supply, monetary policy rate and liquidity ratio will result in an increase in the size of loans given to the SMEs in the long run from 1992 to 2018. Similarly, it is evidenced that a change in unit of money supply will lead to an increase in the amount of loan given to SMEs in Nigeria. In the same vein, a change in unit of the liquidity ratio will result in an increase in the size of loans given to SMEs. However, it is observed that a change in the unit of monetary policy rate will lead to a decrease in the amount of loans given to the SMEs. The results showed the consequence of changes in monetary supply and liquidity ratio on loan accessibility and it is evidenced that both monetary policy instruments often create a long run influenced on SMEs loan accessibility in Nigeria. In addition, the coefficient of determination showed the extent of the predictive power of the model. The finding is in line with the findings of Osakwe et al. (2019); Kalu (2017); Suleyman (2013), Imoughele and Ismaila (2014); but inconsistent with the findings of Abuka et al (2019); Ebire and Onmonya (2018).

5. CONCLUSION

The study considered the influence of monetary policy instruments on SMEs loan accessibility in Nigeria due to the relevance of SMEs in the development of various goods and services in various localities vis-à-vis how changes in monetary policy instruments affect the flow of financial resources to aid their operations. The results showed that money supply and liquidity ratio have significant and positive effect on loans to SMEs while monetary policy rate has both negative and insignificant effect. Based on the results, the study suggested that there is need for the monetary authority to realign monetary policies especially the monetary policy rate in a way that it will promote high fund mobilization from all economic sector in order to improve the activities of SMEs to desired position. Also, the Central Bank of Nigeria needs to develop and monitor the monetary policy instruments focusing monetary policy rate to strengthen the financial institutions in the country in discharging their function of financial intermediation.

The findings of the study will enable the government to review the existing monetary policies and formulate new policies in order to meet current demand. Also, the study will make the government to understand how effective the monetary policies toward enhancing loan accessibility by the operators of SMEs in Nigeria are. This study will equally assist the public to know the contributions of monetary policies in enabling accessibility of loans by the SMEs. It will let the public to know role of money supply, liquidity ratio and monetary policy rate on loans given to SMEs operators in Nigeria

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