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Microfinance and the Challenge of Financial Inclusion for Sme's Development in Nigeria

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Abstract: *This paper examined microfinance and the challenge of financial inclusion for SMEs development in Nigeria. The study adopted two separate econometrics models for capturing and testing for significance in the stated objectives between 2005 and 2015. The first model determined whether financial inclusion improve the financial well-being of low-income savers in the study period. The second investigated the impact that micro finance has on the performance of small and medium scale enterprises. Each of the models was subjected to the Ordinary Least Square regression to determine the appropriateness of models estimated. Findings from the empirical results in model one (1) and two (2) indicated relationship between financial inclusion in Nigeria, microfinance, and small business enterprises over 10 years period of study. The study found out that there is a significant relationship between financial inclusion and financial well – being of the low income earners. Empirical finding that examines the relationship between microfinance and small business in Nigeria indicates that there is a negative significant relationship between loan to small enterprises and loan to rural areas in Nigeria in the period under study. The study suggests therefore that financial inclusion will have a positive significant impact on the development of small business if the plan to include everyone works in Nigeria.*
Keywords: *Microfinance, Financial Inclusion, Small Medium Enterprises*

I. Introduction

An effective financial system is essential because it offers savings, credit, payment, and risk management products to people with a wide range of needs. Inclusive financial systems are of great benefit to poor people and other disadvantaged groups as it facilitate broad access to financial services, with-out price or non-price barriers to their use. Without inclusive financial systems, poor people must rely on their own limited savings to invest in their education or become entrepreneurs. Small enterprises must rely on their limited earnings to pursue promising growth opportunities Fadun (2014). Hence, the Central Bank of Nigeria and other stakeholders in 2012 implement National Financial Inclusion Strategy (NFIS) to decrease the number of Nigerians that are excluded from financial services (CBN, 2012). This financial inclusion refers to timely delivery of financial services to disadvantaged sections of the society (United Nations, 2006; Ramji, 2009).

In the Nigerian context, financial inclusion is achieved when adults have easy access to a broad range of formal financial services that meet their needs and are provided at affordable cost (CBN, 2012). There are five basic pillars of financial inclusion according to Fadun, (2014). These are: (1) access to a full suite of financial services, including credit, savings, insurance, and payments; (2) services must be convenient, affordable, suitable, provided with dignity and client protection; (3) services must be provided to everyone who can use financial service including both excluded and under-served populations, with special attention to rural, persons with disabilities, ethnic minorities, and other often-excluded groups; (4) in a diverse and competitive marketplace consisting of a range of financial service providers, supported by robust financial infrastructure and a clear regulatory framework; and (5) clients financial literacy and capability to promote best use of financial services (Gardeva and Rhyne, 2011; CBN, 2012). To facilitate financial inclusion, access to four key services are essential – transaction banking, savings, credit and insurance (World Bank, 2005; EU, 2008).

Microfinance involves the provision of financial services to the poor and the low income segment of society. Worldwide, microfinance has been identified as a potent instrument for promoting financial inclusion and consequently, poverty alleviation (Umar 2015). In 2005, the Central Bank of Nigeria formulated the National Microfinance Policy along the objectives of the Millennium Development Goals and the National Economic Empowerment and Development Strategy (NEEDS) and thus was born, the formal microfinance subsector in Nigeria.

In Africa and other developing regions, Micro Finance Institutions (MFIs) are regarded as the main source of funding micro enterprises (Anyanwu, 2004 cited in Yusuf 2016). Formal credit and savings institutions for the poor are also available around the globe providing customers who were traditionally neglected by commercial banks a way to obtain financial services through co-operative and other development finance institution. The studies (e.g Kalpard 2011; Nabard 2014) reveal that the unwillingness or inability of the formal financial institutions to provide financial services to the urban and rural poor, coupled with

unsustainability of government support to development financial schemes contributed to the level of growth of private sector-led micro finance in Nigeria.

The gap filled by microfinance institutions has been made to become part of the formal financial system of a country so there is access capital market to fund their lending portfolios allowing to dramatically increasing the number of poor people they can reach. The importance of micro finance is to eradicate poverty; this made Federal Government of Nigeria to adopt it as the main source of poverty reduction in Nigeria and mandated the CBN to develop appropriate policy and framework for the operations of MFIs. Despite this, however, the number of beneficiaries of micro finance banks is an insignificant proportion of the people in need of micro finance services. It has been estimated that formal micro finance banks only services less than 1 million clients in a country where over 70% of the country population of 140 million (2006 Census) lives below poverty line (Irobi, 2015).

Businesses in Nigeria especially the small and medium scales have not performed creditably well and hence have not played the expected vital and vibrant role in the economic growth and development of Nigeria. The situation is more disturbing and worry some when compared with what other developing and developed countries that have been able to achieve with their SMEs Overall, the financial system is not effectively supporting real sector development and is currently not in a position to fulfill its potential as a propeller of economic growth and development. Although the banking system has largely recovered from the recent crisis, the performance of non-bank financial institutions has been generally disappointing. A parallel World Bank review of financing for Rural Micro and Small-Scale Enterprises has also found that the absence of efficiently operating rural financial markets in Nigeria has become a serious constraint on sustainable rural development. In sum, both the formal and informal financial sectors in Nigeria are not currently in a position to effectively support a strong expansion of the real sector and maximize their contribution to economic growth and development.

In spite of the fact that financial inclusion strategy is introduced in Nigeria, the impact has not brought about development of Small and Medium Scale Enterprises (SMEs). This study therefore seeks to find out the role of micro financing as a vehicle for promoting financial inclusion through its activities in the financing of small & medium scale enterprises. The aim of the study is to undertake an in-depth review of the effect of financial inclusion as panacea to small and medium enterprises challenge in accessing finance. The specific focus of the paper is to examine the effects of financial inclusion on micro finance banks activities, micro business as well as identify challenges of financial inclusion in Nigeria since 2005 to 2015. The choice of the period is to cover the micro finance policy era to 2015.

Hypothesis

Ho1 There is no significant relationship between financial inclusion and micro finance in Nigeria in the study period.

Ho2: There is no significant relationship between financial inclusion, microfinance and SMEs development in Nigeria in the study period.

The present section constitutes an introduction. The next two sections (i.e. sections two and three) review relevant literatures and present methodology for the study. Sections four and five present and analyze collected data as well as provide summary, conclusion and recommendations.

II. Review of Related Literature

2.1 Conceptual Review

1. Financial Inclusion

Financial inclusion refers to a practice that guarantees the ease of access, availability and usage of the formal financial system by all members of an economy (Onaolapo 2015). Martinez (2011) in Onaolapo (2015) identified financial access as an important guideline and tool employed by government in combating and inspiring growth given its ability to aid efficient allocation of productive resources, thus reducing the cost of capital. This process otherwise referred to as an inclusive financing system which can significantly improve the day-to-day management of finances, as well as reduce the growth of informal sources of credit (such as money lenders), which are often found to be exploitative. An inclusive financial system is now widely recognized as a policy priority in many countries with initiatives coming from the financial regulators, the government and the banking industry. Regulations have also been enacted in developing nations such as the Reserve Bank of India Financial Inclusion initiative and the Central Bank of Nigeria (CBN) Micro-finance banking policy (2005; Onaolapo 2015). In South Africa, a low cost bank account called *Mzansi* was launched for financially excluded people in 2004 by the South African Banking institutions and Self-help Groups in order to extend financial services to the excluded. Many of these regulatory frameworks were designed as mediums for improving economic welfare of low income groups such as rural women being able to buy serving machine and establish small businesses artesian having access to wider financial services with capacity to increase or stabilize income

and thus build resilience against economic shocks. Besides income benefits of a safe place to make deposits and access to affordable credit assistance, access to financial services through micro-savings and micro-credit has resulted in positive outcomes such as a reduction in child-labour and increases in agricultural productivity (Robinson, 2001 cited Onaolapo 2015).

Generally according to literature (Chain 2009, Onaolapo 2015) the simplest way to measure financial access is through the number of functional bank accounts held by individuals. With regard to this, Chain et al (2008) in Onaolapo 2015) revealed that between 2.1 billion and 2.7 billion adults, or 72 per cent of the adult population in developing countries do not even have a basic bank account. While several definitions of financial inclusion exist with focus on the extent of individuals' involvement in banking activities, it may sometimes be necessary to point out that financial inclusion involves more than mere banker-customer relationship.

Financial inclusion is achieved when adults have easy access to a broad range of formal financial services that meet their needs and are provided at an affordable cost (Financial Inclusion Strategy (FIS), 2012).

The definition of financial inclusion used in the FIS (2012) includes the following elements:

i. **Easy of access to financial products and services**: Financial products must be within easy reach of all segments of the population and should not have onerous requirements.

ii. **Use of a broad range of financial products and services**: Financial inclusion implies not only access but usage of a full spectrum of financial services including, but not limited to payments, savings, credit, insurance, and pension products.

iii. **The design of financial products according to need:** Financial products must be designed to meet the needs of clients and should consider income levels, as well as access to distribution channels.

iv. **Affordable:** Financial services should be affordable even for low-income groups.

Financial inclusion ensures that customers have access to a range of formal financial services, from simple credit and savings services to the more complex such as insurance and pensions. Financial inclusion also ensures that customers have access to more than one financial services provider that promotes a variety of competitive services.

2.1.2 Current State of Financial Inclusion and SMEs in Nigeria

The nation's existing banking infrastructure has the capacity to promote expansion of Financial Inclusion. The Nigeria banking industry has not less than 5,797 bank branches, 112,400,254 ATMs and 6,716,596 POS terminals (CBN, 2014). Although the banked population has grown faster than the bank branch network, the infrastructure is operating below its potential and has the capacity to serve more clients – the average number of clients per branch was 3,882, compared to 3,922 in Kenya and 8,595 in Tanzania (CBN, 2014). To reach best-in-class levels, the average branch should serve more than double the number of clients it serves today. This poses serious challenges to nation's economic growth and development.

The Central Bank of Nigeria and other stakeholders are presently involved in the implementation Non Financial Inclusions (NFIS) in Nigeria. The purpose of NFIS is to decrease the number of Nigerians that are excluded from financial services from 46.3 % to 20% by 2020; and increase the number of Nigerians that are included in the formal sector from 30% in 2010 to 70% by the year 2020 (CBN, 2014). The stakeholders in enhancing the nation's financial inclusion are: banks, other financial institutions, insurance, regulators, technology/telecommunications firms, public institutions and development partners/experts (CBN, 2012). Meanwhile, Central Bank of Nigeria (2010 cited in Laja 2016) survey identified five major barriers to financial inclusion in Nigeria: low and irregular income, physical access, financial literacy, affordability and eligibility. Out of these the three key barriers are accessibility, eligibility and financial literacy. Financial literacy awareness and understanding of financial terms differ according to complexity of the product and product features, as well as commonality of product use within population. There are five major sources of financial information in Nigeria: family and friends; someone trusted in the community and religious leaders; bank, employer and work colleagues; and electronic and print media by relevant stakeholders (CBN 2012).

The NFIS goal in Nigeria is being pursued through a broad range of coordinated interventions, with high priority as highlighted below (CBN, 2012):

1. Transformation of the existing uniform Know-Your-Customer (KYC) regulation into a simplified Risk-based Tiered Framework that allows individuals that currently do not have the required formal identification measure to enter the banking system.
2. Articulation and implementation of Regulatory Framework for Agent Banking to enable financial institutions to bring banking services to the currently unbanked in all parts of the country.
3. Definition and implementation of National Financial Literacy Framework to increase awareness and understanding of the population on financial products and services with the goal of increasing sustainable usage.
4. Implementation of a comprehensive Consumer Protection Framework to safeguard the interest of clients and sustain confidence in the financial sector.

5. Continued pursuance of Mobile-Payment System and other Cash-less Policy efforts to lessen the cost and enhance the ease of financial services and transactions.
6. Implementation of Credit Enhancement Schemes/Programmes to empower micro, small and medium enterprises:

a. Micro, Small and Medium Enterprises Development Fund, 60% of which will support the on-lending activities of microfinance banks and institutions to women enterprises and clients.
b. Nigerian Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL).
c. Entrepreneurship Development Centres (EDCs).
d. Restructuring and Refinancing Facilities for SMEs
e. SME Credit Guarantee Scheme.

2.2 Concept of Microfinance

Ehigiamusoe (2005) described micro finance as the supply of loans, savings and other basic financial services to the poor. The owners of micro and small enterprise require a diverse range of financial instrument to meet working capital requirement, build asset, stabilize consumption, and shield themselves against risk. Financial services include working capital loan, consumer credit, savings pension insurance and money transfer services. Micro financing is the provision of financial services to poor and low income households without access to formal financial institutions (Conroy 2013). Microfinance is described also as banking for the poor. Micro finance programmes provide loans, savings and other financial service to low-income and poor people for use in small business. This is also the opinion of Kimotha (2016) in basic terms, he saw microfinance as the provision of very small loans (Micro) credit to the poor, to help them engage in new productive business activities, or to grow expand existing ones. However, overtime microfinance has come to include a broader range of services. These include mainly credit, savings opportunities, insurance and money transfer, as practitioners came to realize that the poor, who lacked access to traditional formal financial institution, needed and required a variety of financial products to achieve meaningful improvement in their business activities.

The review of the bulletin being issued by the CBN (2005) as a regulatory body showed thus:

- ❖ Microfinance means providing the economically active poor arid low income households with financial services, such as credit (to help them engage in income generating activities or expand/grow their small business), savings, micro leasing, micro insurance and payment transfers.
- ❖ The microfinance policy seeks to make financial *services* available on a sustainable basis to the economically active poor, low income. Earners *and* the micro, small and medium enterprises (MSMEs) through private owned banks (micro finance Banks). This is to create a vibrant micro finance sub-sector that provides the necessary stimulus for national growth and economic development.
- ❖ Microfinance banks are institutions that are established to provide financial services to the active poor. Two categories of micro finance banks (MFBs) are recognized under the micro finance.
- ❖ MFBs licensed to operate as unit banks and within a local government area N20 Million Capital Requirement.
- ❖ MFBs licensed to operates state - wide N1billion capital requirement.

2.2.1 Overview of Microfinance Banks in Nigeria

Currently microfinance banks are of two forms, as all licensed community banks in Nigeria that met CBN guidelines have been transformed to Microfinance Bank. The two forms of microfinance Banks (MFBs) are; (i) Microfinance Banks (MFBs) licensed to operate as a unit. These are hitherto community banks licensed to operate branches and/or cash centres subject to meeting the prescribed prudential requirements and availability of free funds for opening branches/cash centres. The minimum paid-up capital for this category of banks is N20 million for each branch. The branching should be gradual within a local council before it spreads to other local councils and state. (ii) Micro-Finance Banks licensed to operate in a state. These are MFBs licensed to operate in all parts of the state at once without recourse to gradual coverage (spread) as in unit MFBs. Branches are opened subject to meeting the prescribed prudential requirements and availability of free funds. The minimum paid-up capital for this category of banks is N1 billion. About 600 Community Banks have migrated to Microfinance Banks by January 1st, 2008 and there are several others that have been licensed to operate (CBN, 2008 in Ebohdaghe 2015).

The notable changes as regard micro financing issues in Nigeria started within a period of 24 months, ending 31 December, 2009 when all licensed community bank prior to the commencement of the microfinance policy shall convert to micro finance banks on meeting the capital and other requirement. The newly introduced requirement that brought about micro financing policy in Nigeria covers these areas thus: Firstly, the issue of those who can own a microfinance bank in Nigeria changed to any of the two categories of microfinance banks which can be established by individual, group of individuals, community development association, private

companies or foreign investors. Also, the CBN guideline stipulated that universal banks can set up MFBs either as a subsidiary or a departmental /unit to provide micro finance services.

Microfinance banks are institutions constructed as a company licensed to carry on the business of providing microfinance services such as collection of savings, loans provision, insurance money transfer services and other non financial services that are needed by the poor as well as the microenterprise. The clients of microfinance banks are typically self employed low income entrepreneurs in both urban and rural areas, they include traders, subsistence farmers, street vendors, service provides (hair dressers, motorcycle riders), blacksmith and artisans.

2.2.2 Role of Microfinance Banks in Promoting Entrepreneurship

The major roles as identified by Ketu (2008) as stated below:

- **Credit Delivery**

This is perhaps one of the most important roles of Microfinance banks, as the loans extended are used to expand existing businesses and in some cases to start new ones.

- **Boosting Small Scale Enterprises/Agriculture**

Microfinance banks have is the main sources of funding to less disadvantaged groups. Rural people are empowered through microfinance loans and services, and hence small scale agricultural practice and microenterprise is developed.

- **Employment Generation**

Microfinance banks have so far engaged in extending credits and other services to many small enterprises and hence generating employment and promoting entrepreneurship. The promotion of employment in rural areas by microfinance banks covers the following areas; blacksmithing, gold-smiting, watch repairing, bicycle repairing, basket weaving, barbing, palm wine tapping, cloth weaving, dyeing, food selling, carpentry, brick-laying, pot-making, leather works and drumming.

- **Improvement in Skill Acquisition**

Improvement of the condition of women through the provision of, skills acquisition and adult literacy is another role played by microfinance banks. This is done through building capacities for wealth creation among enterprising poor people and promoting sustainable livelihood by strengthening rural responsive banking methodology and the introduction of simple cost-benefit analysis in the conduct of businesses.

- **Facilitates Poverty Alleviation**

Employment and income generation are important aspects of poverty alleviation efforts. Microfinance banks have accelerated the operation of government poverty alleviation programmes and in doing that promising entrepreneurs are supported and new ones emerged. The federal governments National poverty Eradication Programme (NAPEP) and National Economic Empowerment and Development Strategy (NEEDS) to mention a few aimed at achieving the United Nation's Millennium Development Goals (MDGs) by 2015 required these microfinance institutions for success.

Other roles played by microfinance banks include; reorientation of the rural populace on a sound financial practices, as well as issues such as reproductive health care, and girl child education. All these areas have a direct link with entrepreneurial capabilities.

2.2.3 Challenges facing Microfinance Banks in Nigeria

The following among others are identified as challenges faced by microfinance banks in Nigeria in Ketu (2008):

(i) High Operating Cost: Small Units of services pose the challenges of high operating cost, several loan applications to be processed, numerous accounts to be managed and monitored, and repayment collections to be made from several locations especially in rural communities.

(ii) Repayment Problem: Loan default is a major threat to microfinance banks' sustainability; it is the deadly "virus" which afflicts the operation of the banks. It demoralizes staff and deprives beneficiaries of further valuable services.

(iii) Inadequate Experienced Credit Staff: Micro financing is more than dispensing loans, to be viable, microfinance banks require experienced and skilled personnel. As a young and growing industry, there is a dearth of experienced staff in planning, product development and effective engagement with clients.

(iv) Problems of illiteracy, which affects record keeping and decision-making ability of borrowers and consequently affects their relationship with the banks.

(v) Inadequate or non-monitoring of micro and small enterprises by banks, leading to defaults.

2.4 The Relationship between Microfinance and Financial inclusion

In other to determine the relationship between microfinance bank credits and rural economic growth in Nigeria, Egbatunde (2012) attempted to answer this unanswered inquisitiveness; using a double-log equation within the context of Ordinary Least Square (OLS) framework and co-integration test. The study found that

rural economic growth is co-integrated with bank credits indicators in Nigeria. Within the OLS framework, the evidence of positive relationship exist between rural economic growth and commercial bank rural loans as well as commercial bank loans to agriculture and rural economic growth, while deposits of rural dwellers were negatively impacted on rural economic growth. Based on these results, it was argued that the rate at which commercial bank credits is given to rural dwellers contributed to rural economic growth in Nigeria.

Ihugba, Bankonge and Ebomuche (2013) documented (after using multinomial logit regression to examine the impact of microfinance banks on poverty reduction (in Imo State –Nigeria). They concluded that access to finance is a critical factor for poverty reduction. Also, the work of Mbutor and Uba (2013) showed the impact of financial inclusion on monetary policy in Nigeria. Using data from 1980 - 2012, the result supports the notion that growing financial inclusion would improve the effectiveness of monetary policy.

It is well documented in the financial economics literature that financial development boosts overall economic growth and development (Ajisafe & Ajide, 2014). Specifically, studies have also shown that financial development raises the incomes of the poor and alleviates poverty. For instance, the work of Beck, Demirguc-Kunt and Levine (2014) used a cross-country sample to investigate the impact of financial development on changes in income distribution and poverty alleviation. They found that financial development reduced income inequality and boosts the incomes of the poor. The study showed that countries with better developed financial intermediaries experience faster declines in both poverty and income inequality. An investigation by Nwankwo and Nwankwo (2014) examined the sustainability of financial inclusion to rural dwellers in Nigeria using descriptive study and content analysis. The study observed that the sustainability of financial inclusion to rural dwellers in Nigeria remains the mainstream for economic growth in any country.

III. Methodology

The study adopts two separate econometrics models for capturing and testing for significance in the stated objectives. The focus of the first model is to determine whether financial inclusion improve the financial well-being of low-income savers in the study period. The second investigates the impact micro finance has on the performance of small and medium scale enterprises. Each of the models was subjected to the Ordinary Least Square regression to determine the appropriateness of models to be estimated.

Financial Inclusion and Low Income Savers

$SDA = \alpha + \beta 1 BBranch + \beta 2 BLRA + \mu t$...................Eq.1

This model tests for relationship between financial inclusion and financial well – being of low income savers. (SDA) is a proxy for saving deposit account of the low income earners in microfinance banks in Nigeria has been a consistent variable for measuring the financial well-being of the low income savers. Positive relationship to micro finance branches (BBranch) and loan to low income earners (BLRA) indicate that there is improvement in the financial well being of the low income earners whereas a negative relationship is indicative of slide towards poor saving habit.

On the other hand, financial inclusion is in this context defined as the extent of involvement or participation in financial activities, especially as it affects the low-income earners or rural dwellers. To this end, the numbers of Microfinance bank branches (BBRANCH), Bank loan to rural areas (BLRA), were used as proxy for financial inclusion.

Microfinance and Small Scale enterprises

$LSMEs = \alpha + \beta 1 LRAt + \beta 2 LDRt + \mu t$.......................Eq.2

The provision of credit facilities by micro finance banks to a wider segment of the low earners is an avenue of financial inclusion. This however is greatly influenced by the financial health of the micro finance bank. Owing to this fact, the second model captures financial intermediation using Loan to rural area (LRA), Loan-to-deposit ratio (LDR) and Loan to small scale enterprises (LSMEs). Overall, the model takes an investigation into the effect micro financing may have on small business as a strategy for financial inclusion. The model uses an aspect of financial inclusion namely, Deposit from Rural Area (DRA) as a good indicator of financial inclusion because an economy with a very low level of rural bank deposits is indicative of a serious case of financial exclusion.

Sources of data

The data used are mainly annual time series data covering a10 year period from 2005 - 2015. Most of them were extracted from the Statistical Bulletin of Central Bank of Nigeria (CBN) 2015.

IV. Empirical Results

The econometric models were estimated by the Ordinary Least Square technique. The results shown below were obtained using E-view 7.

MODEL 1 DRA=f (BBranch, BLRA)
Dependent Variable: DRA
Method: Least Squares
Sample: 2005 – 2015
Included observations: 11

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BBranch	0.051084	0.023993	2.129088	0.0073
BLRA	0.014234	0.017571	0.810119	0.0091
C	2.356320	1.757126	1.341008	0.2285

R-squared	0.529054	Mean dependent var	1.085000
Adjusted R-squared	0.293580	S.D. dependent var	0.620381
S.E. of regression	0.521422	Akaike info criterion	1.824662
Sum squared resid	1.631288	Schwarz criterion	1.945696
Log likelihood	-5.123308	F-statistic	2.246768
Durbin-Watson stat	2.713124	Prob(F-statistic)	0.183321

E-view 7

The result shows that within the study period, the number of bank branches (BBRANCH) and Bank Loan to the rural area (BLRA) have a positive impact on the dependent variable (SDA), with those of BBranch and BLRA being significant. Additionally the R-Squared of about 52.9% shows a strong relationship. Estimated Durbin Watson value of 2.71 clears any doubts as to the existence of positive first order serial correlation in the estimated model.

The first model was constructed to test the null hypothesis that there is no significant relationship between financial inclusion and micro finance in Nigeria. Judging from the estimated F-statistic it is observed that the overall regression plane is statistically significant and I then reject the null hypothesis.

Model 2: LSMEs =F (LRA, LDRt)
Dependent Variable: LSMEs
Method: Least Squares
Sample: 2005 – 2015
Included observations: 11

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LRA	-5.91E-05	2.93E-05	-2.014526	0.0533
LDRt	0.001530	0.000376	4.070402	0.0003
C	174.8197	11.49944	15.20245	0.0000

R-squared	0.935616	Mean dependent var	250.6662
Adjusted R-squared	0.926735	S.D. dependent var	75.54251
S.E. of regression	20.44743	Akaike info criterion	9.008644
Sum squared resid	12124.82	Schwarz criterion	9.233109
Log likelihood	-148.1470	Hannan-Quinn criter.	9.085193
F-statistic	105.3554	Durbin-Watson stat	0.897214
Prob(F-statistic)	0.000000		

E-view 7

The result of model 2 shows that loan to rural areas (LRA) indicates negative impacts on small scale enterprises (LSME) though significant, while loan to deposit ratio shows a positive impact and significant. The extent of the relationship between the variables on either sides of the model is strong (about 93.56%) and there is a weak evidence of autocorrelation in the estimated model.

The purpose of the second model is to test the null hypothesis that a significant relationship does not exist between micro financing and small scale business in Nigeria. This shows level of challenges faced by the small business owners on getting finance from so called micro finance bank in Nigeria. The F statistic shows that the aggregate effect of the explanatory variables on the explained variable is statistically significant so I

reject the null hypothesis and accept that there is significant relationship between financial inclusion, microfinance and SMEs development in Nigeria in the study period.

V. Conclusion

This paper has examined microfinance and the challenge of financial inclusion for SMEs development in Nigeria findings from the empirical results in model one (1) and two (2) indicate relationship between financial inclusion in Nigeria, microfinance, and small business enterprises over 10 years period of study. The study concluded among others that model one is statistically significant. Thus, there is a significant relationship between financial inclusion and financial well – being of the low income earners. Empirical finding that examines the relationship between microfinance and small business in Nigeria indicates that there is a negative significant relationship between loan to small enterprises and loan to rural areas in Nigeria in the period under study. This reflects the fact that finance is very low for small business owners in the rural areas. The study suggests therefore that financial inclusion will have a positive significant impact on the development of small business if the plan to include everyone works in Nigeria.

However, the study does have some limitations. It has only examined the relationship between financial inclusions on low income savers and the relationship between micro finance and small business enterprises; emphasis on which components of means of payment and investment window has been minimal thus providing a good basis for future studies to examine this matter in greater detail. This study gives a signal to the financial regulator on the need to have proper guidelines or regulations in place that will encourage financial intermediation among the rural poor. The study policy recommendation therefore centres on the need to create deposit and borrowing micro policy at affordable cost to the poor and to the income group.

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