

IMPACT OF MONETARY POLICY ON FINANCING OF SMALL-SCALE ENTERPRISES IN NIGERIA

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Abstract

This study examined the impact of monetary policy on financing of small-scale enterprises in Nigeria from 1999 to 2024. The specific objectives were to ascertain the impact of monetary policy rate, liquidity ratio, cash reserve ratio, and loan-to-deposit ratio on financing of small-scale enterprises in Nigeria. The study adopted ex-post facto research design with yearly time series data obtained from Central Bank of Nigeria (CBN) Statistical Bulletin and Monetary Policy Committee communiqué of the CBN. The dependent variable for this study was financing of small-scale enterprises, proxy by bank credit to small scale enterprises. A computer based multiple regression equation using Autoregressive Distributed Lag (ARDL) method of estimation was employed. The findings from the study revealed that monetary policy rate and loan-to-deposit ratio has positive and negative impact respectively on financing of small-scale enterprises in Nigeria but not statistically significant while liquidity ratio has negative but not significant impact on financing of small-scale enterprises in Nigeria over the time studied. Also, cash reserve ratio has negative significant impact on financing of small-scale enterprises in Nigeria over the time studied. The study therefore concludes that monetary policy, particularly cash reserve ratio considerably affects financing of small-scale enterprises in Nigeria such that lowering the ratio drives up credit to small scale businesses in Nigeria. Consequently, the study recommended among others that banks with liquidity can be incentivized to finance small businesses through the provision of partial credit guarantees from government agencies such as Bank of Industry while monetary authorities should ensure that banks rigorously adhere to the prescribed loan-to-deposit ratio and also the percentage of total credit that banks must provide to small-scale firms, with stricter penalties for non-compliance, such as forfeiting unused funds to the CBN.

Keywords: Monetary Policy, small scale enterprises, credit to small scale enterprises.

1.0 Introduction

Small scale enterprises are of vital importance to the economy as they often play a key role in attaining macroeconomic goals of income distribution, job creation, and contribution to gross domestic product. This has prompted policymakers to put in place policies necessary for small scale enterprises to grow. Finance according to Aigbe et al. (2025) is the top priority for small scale enterprises to grow and survive in an unstable economy. According to OECD (2024), finance is one of the major obstacles to the establishment, survival, and growth of small businesses particularly innovative ones. Also on finance, the Central Bank of Nigeria(CBN) expressed concern over ₦617.3 billion annual financing gap for small scale enterprises, pointing out that just roughly 5% of small businesses have access to sufficient funding to cover their operations and expansion needs (Nairametrics, 2021).

Even though the CBN has introduced a number of initiatives such as Micro, Small and Medium Enterprises Development Fund (MSMEDF), Agribusiness/Small and Medium Enterprises Investment Scheme (AGSMEIS) to address financing gap in the small scale enterprises

subsector, they still seem inadequate. Some of the finance options available to small scale enterprises are trade credit, bank loans, and informal sources such as loans from family and friends and personal savings. Small scale enterprises go to banks in order to get larger loan amounts. To make credit more available, the CBN adopts a technique that mainly aims at the intermediate targets of monetary variables like money supply, bank credit and interest rate.

Oseni and Oyelade (2023) opined that the two key policies for managing the level of economic activities in an economy are monetary policy and fiscal policy. Monetary policy is an intended action or purposeful decision meant to control the value, cost and supply of money so as to align with the expected level of economic activities while fiscal policy refers to the use of taxes and government spending in influencing the entire economy (Jahan & Sarwat, 2014). Monetary policy is one measure for improving the operations of small scale enterprises due to their invaluable role in growing economies like Nigeria and their need for adequate and seamless access to credit cannot be overemphasized.

Monetary policy instrument like monetary policy rate (MPR) serves as the basis for money market interest rates in Nigeria. MPR is the rate that the CBN charges deposit money banks (DMBs) in carrying out its function as the lender of last resort (Ogundipe & Akinbobola, 2020). In addition, it indicates the desired direction of monetary policy. The central bank's decision to lower the MPR signals an expansionary monetary policy, which is expected to increase the availability of credit. Liquidity ratio is the proportion of total deposits required to be kept in specified securities or liquid assets. The liquid assets often considered are cash and short-term marketable securities, such as government securities like certificates and treasury bills (Etale & Oweibi, 2019). The minimum amount of cash that DMBs are required to keep with the CBN is known as cash reserve ratio. That is, it specifies the percentage of all deposit liabilities that DMBs must deposit with the CBN in cash (Nwani & Adukwu, 2025). One form of liquidity ratio used to determine a bank's liquidity is the loan-to-deposit ratio, which compares the total loans to the total deposits. The central bank routinely sets liquidity ratio, cash reserve ratio, and loan-to-deposit ratio in a bid to influence the ability of the banks to create credit. That is, changes in the aforementioned ratios are expected to have an impact on the credit that small scale enterprises can obtain. For instance, the Monetary Policy Committee (MPC) lowers the liquidity ratio and cash reserve ratio in a bid to make loans more accessible to businesses. Same outcome is anticipated when the loan-to-deposit ratio is raised.

However, CBN (2024) report revealed a no stable relationship between monetary decisions and credit to small scale enterprises in Nigeria. For instance, the MPR was reduced from 20.5% in 2001 to 15% in 2003, indicating an expansionary policy. As expected, credit to small scale enterprises increased from ₦52.43 billion in 2001 to ₦90.18 billion in 2003. The MPR was further dropped from 15% in 2003 down to 10% in 2006, still credit to small scale enterprises fell from ₦90.18 billion in 2003 to ₦25.71 billion in 2006. In the same vain, liquidity ratio was reduced from 52.5% in 2002 to 50.2% in 2005, yet credit to small scale enterprises dropped from ₦90.18 billion in 2003 to ₦25.71 billion in 2006. However, liquidity ratio was reduced from 49.72% in 2012 to 38.27% in 2014. As expected, credit to small scale enterprises rose from

₦13.86 billion in 2012 to ₦16.07 billion in 2014. Consequently, the question of, to what extent monetary policy influences bank credit to small businesses in Nigeria is then raised.

Again, it is observed that several studies such as Osakwe et al. (2019); Alade et al. (2020); Adebayo and Iliya (2025) as well as Azeez (2020) explored the impact of monetary policy on bank credit in Nigeria whilst a few studies such as Aigbe et al. (2025); Olajide, (2021); Ebire and Onmonya (2018) as well as Nto et al. (2012) investigated the impact of monetary policy on financing of small scale enterprises in Nigeria with their studies presenting mixed findings. Based on the aforementioned observations, this study investigated the extent to which monetary policy measures have impacted on financing of small scale enterprises in Nigeria from 1999 to 2024. The selection of this period was dependent on the creation of the MPC, which was established in 1999, coinciding with Nigeria's shift from military to the present civilian governance.

2.0 Literature Review

Small scale enterprises are business firms with 10–49 employees, yearly sales between ₦25 million and ₦99 million, registered with structured operation (SMEDAN, 2025). Small scale enterprises financing refers to raising funds to support the business or expansion of the firm. It fills the gap between income generated by the firm and the money needed to pay for inventory, operating costs, or emergency cash flow. Viable options for small scale enterprises financing includes debt, equity, and other funding options, each having unique benefits, charges, and guidelines (Thankgod & Igbinoia, 2022). Common debt funding options include lines of credit, bank loans, and SMEDAN loans while equity financing options include venture capital and angel investors. Alternative funding options include factoring, peer-to-peer lending, invoice financing, crowdfunding among others (García-Teruel & Martínez-Solano, 2007). The study focuses on bank loans, which is among the most common types of debt financing in which a small scale firm takes out a lump sum loan from a bank and pays it back gradually with interest.

Monetary policy refers to actions taken by monetary authorities to control the credit flow and money supply in order to achieve specific macroeconomic goals. This is usually done in a bid to ensure price stability, build public positiveness in the stability and value of national currency and reduce inflation or interest rates (Adeleke et al., 2023). Monetary policy instruments could be either direct or indirect. Stabilization securities, limits on public deposit placement, special deposits, exchange control, deposit limit and aggregate credit limit are a few examples of direct monetary policy tools. Indirect monetary policy instruments include MPR, liquidity ratio, selective credit policies, cash reserve requirement, open market operation, and loan to deposit ratio (Udoh et al., 2018).

According to Ogundipe and Akinbobola (2020), MPR is the rate that the CBN charges DMBs in carrying out its function as the lender of last resort. In addition, it indicates the desired direction of monetary policy. MPR is the basis upon which all other rates are set. In other words, when MPR rises, all other rates rise, and when MPR falls, all other rates fall. Additionally, the MPR serves as the basis for the interest that DMBs charge one another when giving out loans and also when borrowing in the Nigerian interbank market. A change in the MPR affects credit, price,

growth, and the money market interbank interest rate, among other aspects of the economy (Ovat et al., 2022). The CBN asymmetric corridor defines the upper and lower boundaries around the MPR. This entails determining the minimum rate (floor) and the maximum rate (ceiling) at which banks can borrow from the CBN during periods of low liquidity and also overnight borrowing between DMBs.

Michael and Ebibai (2014) defined liquidity as the ability to quickly and affordably obtain needed funds. It also means being able to pay bills timely, whether it means withdrawing funds from an interbank deposit, current account, or savings account. Etale and Oweibi (2019) defines liquidity ratio as the proportion of total deposits required to be kept in specified securities or liquid assets. The liquid assets often considered are cash and short-term marketable securities, such as government securities like certificates and treasury bills (Etale & Oweibi, 2019). At any moment, the CBN determines the proportion of short-term assets that DMBs must retain in relation to customer deposits. Thus, the CBN mandated banks hold 30% of their deposits in cash or near-cash securities so as to meet demands made on banks (CBN, 2024). When the liquidity ratio is raised, the money supply will fall. Conversely, when the ratio falls, more deposits could be created, thereby increasing the amount of money in circulation. To make funds available for lending, the liquidity ratio can be lowered.

The minimum amount of cash that DMBs are required to keep with the CBN is known as cash reserve ratio (CRR). That is, it specifies the percentage of all deposit liabilities that DMBs must deposit with the CBN in cash (Nwani & Adukwu, 2025). The CRR shows the proportion of DMBs' total demand deposits, savings, and time deposits that are cash deposits with the CBN (Okoh & Otene, 2020). This amount of the deposit cannot be used to buy securities or give loans. Higher reserve requirements therefore result in a lower money multiplier. The ratio controls the amount of credit that DMBs can create in order to ensure that the banks remain liquid. In reaction to increased reserve requirements, interest rates rise. One form of liquidity ratio used to determine a bank's liquidity is the loan-to-deposit ratio, which compares the total loans to the total deposits. Banks can give out more loans to individuals and businesses when the loan-to-deposit ratio rises, but they are less able to lend to customers using depositor funds when the loan-to-deposit ratio falls.

Theoretical Review

Following the observed trend between monetary policy measures and credit to small scale businesses, credit channel theory is chosen as the theoretical framework for this study. Bernanke and Blinder (1988) were proponents of this theory. The theory describes how the real economy is impacted by monetary policy, not only by interest rates but also by changing the availability and conditions of bank loans and by extending the impact of the policy during monetary tightening periods. It focuses on the vital role that banks play in lending money and how the actions of central bank affect banks' ability to lend money and how borrowers are affected. The bank lending channel and the balance sheet channel are the two pathways through which the credit channel can happen (Bernanke & Blinder, 1988).

According to the bank lending channel, changes in monetary policy will affect the availability of bank loans, particularly credit given by DMBs. Monetary policy decisions can have an impact on

bank deposits (supply of loanable funds) which is representing their liabilities and thus, the total amount of loans that banks are able to make (i.e., their assets). Okpara (2018) pointed out that because DMBs can have a large number of loan defaulters during periods of restrictive monetary policy, the lending duration of these banks could then be shortened. As a result, small business owners find it challenging to obtain loans in the financial sector.

Bank lending channel view monetary tightening decisions as efforts made at reducing the liquidity of all the DMBs in the system or to increase the cost of obtaining the liquidity needed for lending. The balance sheet channel is the idea that borrowers' income statements and balance sheets are impacted by interest rate increases brought on by restrictive monetary policies. In other words, higher interest rate makes it more expensive to take out new loans and pay off existing debt, which reduces cash flow and profits and also reduces the current value of collateral, all of which have a direct impact on net worth.

Empirical Review

Aigbe et al. (2025) examined Central Bank of Nigeria monetary policy outcomes and financing of small and medium scale enterprises in Nigeria. The study employed annual time series data for the period 2004 to 2023. The study also employed small and medium enterprises fund as dependent variable while interest rate, money supply and exchange rate were used as the independent variables. The study employed Auto Regressive Distributed Lag (ARDL) model and found that money supply and exchange rate have negative impact on financing of small and medium scale enterprises but the impact was statistically not significant while interest rate has positive and statistically significant impact on financing of small and medium scale enterprises in Nigeria.

Adebayo and Iliya (2025) examined the influence of MPR on credit extension of Nigerian DMBs. The study employed yearly time series data for three selected DMBs for the period 2000 to 2004. The study also employed bank credit as the dependent variable while MPR, gross domestic product and exchange rate served as the independent variables. The study employed pooled regression method and found that MPR and exchange rate have positive impact on bank credit but the impact was statistically not significant while gross domestic product has negative impact but not statistically significant.

Olajide (2021) investigated the effects of monetary policy instruments on small and medium enterprises loan accessibility in Nigeria. The study employed annual time series data for the period 1992 to 2018. The study also employed loans to small scale enterprises as dependent variable while liquidity ratio, MPR and money supply were used as the independent variables. The study employed dynamic least square approach by employing multiple regression analysis and found that money supply and liquidity ratio has positive effect on loans to small scale enterprises in Nigeria and the effect was statistically significant while MPR has negative effect on loans to small scale enterprises in Nigeria but the effect was statistically not significant.

Alade et al. (2020) investigated the impact of monetary policy on bank credit in Nigeria. The study employed monthly time series data for the period 2007 to 2019. The study also employed

bank credit as dependent variable while liquidity ratios, MPR, change in maximum lending rate and money supply were used as the independent variables. The study employed Fully-Modified Co-integrating Regression and found that MPR and liquidity ratio have negative impact on bank credit in Nigeria while only the impact of liquidity ratio was statistically significant. Also, change in maximum lending rate and money supply have positive impact on bank credit in Nigeria while only the impact of money supply was statistically significant.

Azeez (2020) examined the nexus between monetary policy and bank credit in Nigeria. The study employed quarterly time series data for the period 2001 to 2017. The study also employed bank credit to private sector and small scale enterprises as dependent variable while liquidity ratio, MPR and money supply were used as the independent variables. The study employed Auto Regressive Distributed Lag (ARDL) model and found that MPR has negative and statistically significant impact on bank credit both in the short run and long run. Liquidity ratio has negative and positive impact on bank credit in the short run and long run respectively but only the long run impact was statistically significant. Lastly, money supply has positive and statistically significant impact on bank credit both in the short run and long run.

Osakwe et al. (2019) examined the effect of monetary policy instruments on banking sector credits in Nigeria. The study employed yearly time series data for the period 1986 to 2016. The study employed total bank credit to the economy as the dependent variable while treasury bill rate, cash reserve ratio, MPR and liquidity ratio served as the independent variables. The study employed vector error correction model by employing multiple regression analysis and found that in the long run, MPR and liquidity ratio have positive effect on bank credit in Nigeria while only the effect of MPR was statistically significant. Also in the long run, Treasury bill rate and cash reserve ratio have negative and statistically significant effect on bank credit in Nigeria.

Ebire and Onmonya (2018) examined the impact of monetary policy on small scale enterprises financing in Nigeria. The study employed quarterly time series data for the period 1992 to 2016. The study employed deposit money bank loans to small and medium scale enterprises as the dependent variable while interest rate, exchange rate, money supply and inflation rate served as the independent variables. The study employed error correction model by employing multiple regression analysis and found that money supply and exchange rate have negative impact on small scale enterprises financing in Nigeria but not statistically significant while interest rate and inflation rate has positive and negative impact on small scale enterprises financing in Nigeria respectively and the impact was statically significant.

Afolabi et al. (2018) examined the relationship between monetary policy and bank credit in Nigeria. The study employed yearly time series data for the period 1981 to 2016. The study employed bank credit to private sector as the dependent variable while MPR, cash reserve ratio, money supply, liquidity ratio and inflation served as the independent variables. The study employed Toda and Yamamoto granger causality model and found there exist statistically significant causal relationship which runs from MPR to credit to private sector and vice versa (bi-directional) while no causal relationship was found between the other aforementioned variables and bank credit to private sector.

Nto et al. (2012) examined the influence of monetary policy variables on loan supply to small and medium scale enterprises in Nigeria. The study employed quarterly time series data for five deposit money banks for the period 1995 to 2010. The study also employed credit supply by banks to SMEs as the dependent variable while lending rate of banks in Nigeria, cash reserve ratio, interest rate and liquidity ratio served as the independent variables. The study employed Fully Modified Least Squares estimation technique and found that interest rate and liquidity ratio has negative and positive impact on credit supply to SMEs respectively and the impact was statistically significant while cash reserve ratio and lending rate of banks has no significant impact.

The review of related studies have revealed mixed findings both in the direction as well as in the magnitude of the impact of monetary policy on credit extended to small businesses in Nigeria. Again, loan-to-deposit ratio which is a monetary tightening or easing policy, aimed at controlling the liquidity position of DMBs and by extension, is also able to influence the availability and the quantity of money in the economy, has to the best of my knowledge not been included in the investigation of the subject matter conducted in Nigeria. Based on the aforementioned observations, this study further re-examined the extent to which monetary policy with the inclusion of loan-to-deposit ratio have impacted on financing of small scale enterprises in Nigeria.

3.0 Methodology

Considering that secondary data exist, the ex-post facto research design was employed to carry out the investigation. Consequently, annual time series data for the period 1999 to 2024 were collected and used in the study. The data were sourced from MPC communique and various issues of CBN Statistical Bulletin. Specifically, data for credit to small scale enterprises, liquidity ratio, MPR, loan-to-deposit ratio, and deposits in rural branches of DMBs as a control variable were extracted from CBN Statistical Bulletin whereas the data for cash reserve ratio were extracted from both CBN Statistical Bulletin and the MPC communiqué.

Model Specification

The model employed was adapted from the work of Olajide (2021). The linear regression used by the researcher is stated thus:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + U$$

Where Y = loans to small scale enterprises (as measure for financing of small scale enterprises in Nigeria); X1 – X3 = independent variables of liquidity ratio, monetary policy rate and money supply. The study made slight modification in terms of the independent variables. Thus, the model is given as:

$$CSE = f(MPR, LQR, CRR, LDR, DIB) \dots\dots\dots 1$$

The variables of CSE and DIB were logged due to their large values.

Equation (1) is transformed into a linear equation:

$$\text{LogCSE} = \beta_0 + \beta_1\text{MPR} + \beta_2\text{LQR} + \beta_3\text{CRR} + \beta_4\text{LDR} + \beta_5\text{LogDIB} + U \dots\dots\dots 2$$

Where:

CSE = Credit to small scale enterprises as proxy for financing of small scale enterprises in Nigeria; β_0 = Intercept of the regression.

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = coefficients of unknown parameters to be determined.

MPR = Monetary policy rate; LQR = Liquidity ratio; CRR = Cash reserve ratio; and LDR = Loan-to-deposit ratio.

DIB = Deposits in rural branches of DMBs as a control variable; and U = Error term.

A priori Expectation

It is anticipated that $\beta_1, \beta_2, \beta_3 < 0$; $\beta_4, \beta_5 > 0$. That is MPR, LQR, and CRR are expected to have negative impact on financing of small scale enterprises while LDR and DIB are expected to have positive impact on financing of small scale enterprises in Nigeria.

Operationalization of Variables

Table 1

Presents the measurement of variables.

Variable	Description	Type	Measurement
CSE	Credit to small scale enterprises	Dependent	Annual DMBs' loans to small scale enterprises
MPR	Monetary policy rate	Independent	Annual benchmark interest rate set by the CBN
LQR	Liquidity ratio	Independent	Annual proportion of liquid assets that DMBs hold relative to the deposits of customers.
CRR	Cash reserve ratio	Independent	Annual proportion of all deposit liabilities that DMBs are required to deposit in cash with the CBN
LDR	Loan-to-deposit ratio	Independent	Annual ratio of total amount of loans given out by banks divide by their total amount of deposits
DIB	Deposits in rural branches of DMBs	Control	Deposits in rural branches of DMBs

Source: Researcher's Compilation, 2026.

Data Analyses and Discussion of Findings

Unit Root Test

Employing the Augmented Dickey-Fuller (ADF) test statistics, unit root tests at levels and first difference were conducted for each variable in the model.

Table 2:

ADF Unit Root Test at Levels and First Difference

Var	ADF Test Stat	Level	Level	Prob	ADF Test Stat	First Diff	First Diff	Order
		1%	5%			1%	5%	
CSE	-0.686826	-4.374307	-3.603202	0.9631	-4.405711	-4.440739	-3.632896	I (1)
MPR	-0.544366	-4.374307	-3.603202	0.9738	-5.110818	-4.394309	-3.612199	I (1)
LQR	-2.785908	-4.374307	-3.603202	0.2147	-5.907153	-4.394309	-3.612199	I (1)
CRR	-1.022256	-4.374307	-3.603202	0.9224	-4.170942	-4.394309	-3.612199	I (1)
LDR	-4.048555	-4.440739	-3.632896	0.0222				I (0)
DIB	-1.912814	-4.394309	-3.612199	0.6168	-3.664971	-4.394309	-3.612199	I (1)

Note. The stochastic time series properties are integrated of order one, I(1) and order zero I(0).

Source: Researcher's computation, 2026.

The result above shows that the variable LDR was found to be stationary at level since the ADF test statistic value was higher than the 5% critical value. The variables of GSE, MPR, LQR, CRR and DIB became stationary only at first difference. Upon confirmation that the variables are

integrated of different orders, the study proceeded to check if the variables are co-integrated. The study employed the Bounds Test proposed by Pesaran et al. (2001).

Co-integration Test

Table 3:
Bounds Test for Co-integration

Variables	F-Statistics	Co-integration
F(CSE, MPR, LQR, CRR, LDR, DIB)	1.327387	Cointegration
Critical Values	Lower Bound	Upper Bound
10%	2.26	3.35
5%	2.62	3.79
2.5%	2.96	4.18
1%	3.41	4.68

Source: Researcher’s computation, 2026.

Result from the Bound Test in Table 3 revealed that the computed F-statistics value is lower than all the upper critical bound I(1) values and lower critical bound I(0) values. Therefore, the null hypothesis of no co-integration is accepted. The findings therefore suggest that monetary policy measures and financing of small-scale enterprises in Nigeria have no long run relationship. In line with the ARDL optimal model (1, 1, 1, 2, 1, 1), the result of the short-run form of the ARDL model is presented below.

Table 4:
Showing Result of ARDL Short Run Coefficients

Variable	Coefficient	t-statistics	Prob. Value
CSE(-1)	0.774688	4.730141	0.0003
MPR	0.066428	1.729876	0.1042
MPR(-1)	0.015801	0.433158	0.6720
LQR	-0.001415	-0.172610	0.8653
LQR(-1)	0.003390	0.441508	0.6661
CRR	-0.079149	-2.247387	0.0401
CRR(-1)	0.048990	1.089193	0.2933
CRR(-2)	0.041714	1.151067	0.2677
LDR	-0.023497	-2.120227	0.0511
LDR(-1)	0.006517	0.587564	0.5669
DIB	0.056899	0.922956	0.3706
DIB(-1)	-0.074470	-1.077328	0.3009
C	1.531929	1.368712	0.1912

Adj. R-squared = 0.779023; Durbin-Watson stat = 2.710048

Source: Researcher’s computation, 2026.

The adjusted R-squared of 0.779023 which suggests that 77.9% variation in the dependent variable is accounted for by changes in the explanatory variables. The remaining 22.1% could not be explained by the explanatory variables due to external forces and is represented by the error term (et). The Durbin-Watson statistics of 2.7 suggests that there is no serial correlation in the model.

Table 5:
Diagnostic Tests

Test	F-statistic	Prob.
Serial correlation LM	2.418074	0.1280
Heteroscedasticity	0.969723	0.4940
Jarque-Bera Normality	1.041882	0.593961

Source: Researcher’s computation, 2026 using E-views 9

Various diagnostic tests of the model are shown in Table 5 above. Results showed that the model didn’t suffer from serial correlation and heteroscedaticity problems as confirmed by the probability values of 0.1280 and 0.4940 respectively which were found to be not significant by being greater than 5%. Also, the jarque-bera normality test result shows that the p-value of 0.593961 is greater than 0.05, suggesting that the model is normally distributed at 5% level of significance.

Empirical Validation of Hypotheses

H0₁: Monetary policy rate has no significant impact on financing of small scale enterprises in Nigeria.

H0₂: Liquidity ratio has no significant impact on financing of small scale enterprises in Nigeria.

H0₃: Cash reserve ratio has no significant impact on financing of small scale enterprises in Nigeria.

H0₄: Loan-to-deposit ratio has no significant impact on financing of small scale enterprises in Nigeria.

Decision Rule: Reject the null hypothesis when the prob. value is less than 0.05.

For monetary policy rate, the current period prob. value is 0.1042 which is greater than 0.05 and therefore the null hypothesis is not rejected. Consequently, monetary policy rate has no significant impact on financing of small scale enterprises in Nigeria.

For liquidity ratio, the current period prob. value is 0.8653 which is greater than 0.05 and therefore the null hypothesis is not rejected. Consequently, liquidity ratio has no significant impact on financing of small scale enterprises in Nigeria.

For cash reserve ratio, the current period prob. value is 0.0401 which is less than 0.05 and therefore the null hypothesis is rejected. Consequently, cash reserve ratio has significant impact on financing of small scale enterprises in Nigeria.

For loan-to-deposit ratio, the current period prob. value is 0.0511 which is greater than 0.05 and therefore the null hypothesis is not rejected. Consequently, loan-to-deposit ratio has no significant impact on financing of small scale enterprises in Nigeria.

Discussion of Findings

The result of the study revealed that monetary policy rate has positive but not significant impact on financing of small scale enterprises in Nigeria over the time studied. The result contradicts the credit channel theory which holds that an increase in MPR will lead to a reduction in the availability of loans to small scale enterprises. That the impact is not statistically significant may not be unconnected to banks view of small scale enterprises as dangerous and high-risk, leading to strict lending requirements, thereby forcing these firms to turn to informal finance providers. This result is similar to the findings of Olajide (2021) whose study reported a not significant effect of monetary policy rate on small and medium enterprises loan accessibility in Nigeria from 1992 to 2018

In addition, liquidity ratio has a negative but not significant impact on financing of small scale enterprises in Nigeria over the time studied. The direction of the impact is in line with the credit channel theory. However, the impact is not statistically significant and this may be due to DMBs tradition of credit rationing, in which they impose stringent lending requirements that small scale enterprises are unable to satisfy, regardless of the liquidity position of the banks. This result contradicts the findings of Nto et al. (2012) whose study reported positive significant impact of liquidity ratio on loans to small scale enterprises in Nigeria from 1995 to 2010.

The study also revealed that cash reserve ratio has negative and significant impact on financing of small-scale enterprises in Nigeria over the time studied. The result is consistent with the credit channel theory which holds that an increase in cash reserve ratio will lead to a reduction in the availability of loans to small scale enterprises. This result contradicts the findings of Nto et al. (2012) whose study reported a not significant impact of cash reserve ratio on loans to small scale enterprises in Nigeria from 1995 to 2010.

Lastly, the result of the study revealed that loan-to-deposit ratio which is the novel variable investigated in the subject matter showed negative but not significant impact on financing of small scale enterprises in Nigeria over the time studied. The result contradicts the credit channel theory which holds that an increase in loan-to-deposit ratio will lead to an increase in the availability of loans to small scale enterprises. That the impact is not significant may be due to small scale enterprises lack of substantial assets or adequate collateral, irrespective of the prescribed loan-to-deposit ratio.

5. Conclusion and Recommendations

The study revealed that of the investigated monetary policy measures, only liquidity ratio and cash reserve ratio aimed at influencing the credit-creating capacity of the banks has the expected impact with the impact of the latter on financing of small scale enterprises in Nigeria statistically significant. Therefore, the study submits that monetary policy via banking system channels,

particularly cash reserve ratio considerably affects the financing of small scale enterprises in Nigeria. This lends credence to the credit channel theory.

Based on the above findings and conclusion, the study is recommending that provision of loans to small scale enterprises be driven not only by non-price factors like cash flow and management experience but also by interest rate consideration by banks. Secondly, banks with liquidity should be incentivized to give loans to small scale enterprises through the provision of partial credit guarantees from Bank of Industry. Thirdly, regulations that support the relaxation of rigid collateral requirements should be introduced so that small businesses can use assets like inventory, equipment, or accounts receivables as security. Lastly, monetary authorities should ensure that banks rigorously adhere to the prescribed loan-to-deposit ratio and also the percentage of total credit that banks must provide to small-scale firms, with stricter penalties for non-compliance. For example, forfeiting unused funds to the CBN.

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