SSRG International Journal of Economics and Management Studies
ISSN: 2393 – 9125 / http://doi.org/10.14445/23939125/IJEMS-V7I10P111
Volume 7 Issue 10, 59-63, October 2020

Original Article

Microfinance Banks: A De Facto Agent to Sustainable Economic Development in Nigeria

MOKUOLU Joseph Oluseye[1], KOLAPO Funsho Tajudeen[2], ADEJAYAN Adeola Oluwakemi[3], DADA Samuel Obafemi[4]

[1,2,3&4]: *Department of Finance, Faculty of Management Sciences, Ekiti State University, Ado-Ekiti, Nigeria*

Received Date: 07 September 2020
Revised Date: 16 October 2020
Accepted Date: 22 October 2020

Abstract *- This paper examines the impact of microfinance institutions as a de facto agent in sustaining the Nigerian economy. The study adopted secondary data sourced from several issues of the Central Bank of Nigeria (CBN) Statistical bulletins and National Bureau of Statistics and applying ordinary least square of multiple regressions over time series annual data of Nigeria from 1994 through 2015, a period covering about twenty-one years to empirically test the sustainability of microfinance institutions in developing the economy of Nigeria. The study confirms from the correlation coefficient of the results that there is a positive relationship between Deposits and Loans and Advances depicting the microfinance activities and the economic growth and development of Nigeria represented by the Gross Domestic Product (GDP). The regression analysis results showed that the effect of Deposits on economic growth and development is significantly positive. In contrast, the effect of Loans and Advances is insignificant but positive on the GDP. However, the F-statistics result showing the overall significance of the model implies that MFIs will go a long way in impacting economic growth and development in Nigeria through poverty alleviation of the low and middle class of society the majority of the populace. Therefore, it is recommended that the government create an enabling environment capable of supporting the microfinance banks in microcredit delivery to sustain the economy.*

Keywords - *Sustainable, Micro Finance Institution, Deposits, Micro credits*

I. INTRODUCTION

Microfinance institutions' importance and roles in a nation's economic development cannot be emphasized. Its importance in poverty alleviation goes as far as helping to place resources in the poor's hands who are economically active in society [1]). Over the years, many programs and policies have emerged in a bid to improve the living condition of the Nigerian population to reposition the country's economic development and stability. In its bid, the Central Bank of Nigeria (CBN) included the microfinance policy as one of its initiatives designed to boost micro, small, and medium enterprises' economic growth and development through financial intermediation. The launching of microfinance policy, regulatory, and supervisory framework guidelines in 2005 by the Central Bank of Nigeria is a major landmark in the history of micro-credit delivery service in Nigeria. One of the policy thrusts was the emergence of many private sector-initiated Micro Finance Banks(MFBs) across the country, either through conversion of existing community banks, transforming the existing NGO to MFIsromoting fresh microfinance operators [2]. The main thrust of this policy, according to [3] is to reach out to the majority of the poor but economically active population by the year 2020, thereby eradicating poverty through the provision of microfinance, skills acquisition, and job creation for income generation.

It has been observed that people from developing countries have innovative ideas for their business, even as a shopkeeper or household products manufacturer but they lack financial resources to implement their ideas which resulted to low economic activities in developing countries. It leads them to more poverty, unemployment, and low living standards. There is, therefore, a need for the establishment of microfinance to support the poor to proffer solution to their financial constraints and thereby be able to contribute a productive part to the society to make it sustainable since microfinance institutions are seen as an agent of economic development in developing countries [4]

There is a substantial financial gap in the population comprising a majorly of low income due to financial intermediaries' failure to allocate resources efficiently to this market segment, which can easily be serviced through Nigeria's microfinance institution. [5] is of the view that microfinance institutions recognize the peculiar challenges of micro-enterprises and their owners and their inability to provide tangible collateral. Therefore, they provide a collateral substitution. The credit facility's disbursement and repayment are structured to suit small businesses' credit needs and cash flow patterns.

This study seeks to investigate and provide more empirical evidence on the impact of Micro Finance Institutions on economic development and the extent to which they have been an agent of change to micro, small, and medium scale enterprises in Nigeria.

II. LITERATURE REVIEW

This study examines the impact of microfinance institutions as a de facto agent in sustaining the Nigerian economy by providing financial services to the economically active poor and low-income households who are hitherto unserved by the mainstream finance service provider [6]. Their service includes credit, savings, micro-leasing, micro-insurance, and payment transfer to poor and low-income household and their micro-enterprises [1]. Therefore, microfinance serves as a vehicle through which the poor are empowered, thereby proving to be a valuable tool to assist the economic process.

Since owners of micro and small enterprises require a diverse range of financial instruments to meet the working capital requirement, build assets, stabilize consumption and shield themselves against risks, Microfinance institutions come in handy in bridging this gap through their financial services, which include working capital loans, consumer credit, savings, pensions, insurance, money transfer services, and other essential financial services to the poor. [7].

[8] defined microfinance simply as providing very small loans (microcredit) to the poor to help them engage in new productive business activities and grow existing ones. However, over time, 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 a traditional formal financial institution, needed and required a variety of financial products to achieve meaningful improvement in their business activities.

In practice, microfinance is much more- than disbursement, management, and collection of little bits of loan [9]. However, microfinance institutions are not charity organizations despite their appellation as "poverty lending." Primarily, microfinance seeks to create access to credit for the poor who ordinarily are locked out of financial services in the formal financial market because of their poverty, which is a lack of command over assets. Therefore, it laces the borrowers' obligation or proper utilization and complete repayment of borrowed amounts, even at commercial interest rates [10].

Central Bank of Nigeria [11] reported that the formal financial system provides services to about 35% of the economically active population, while the remaining 65% are excluded from access to financial services. The size of the unserved market by the existing financial institution is largely paving the way for MFBs relevance. Nigeria's average banking density is a financial institution outlet to 32,700 inhabitants, and in the rural areas, it's 1,157,000. That is, less than 2% of households have access to finance, which is one of the main constraints to the growth and expansion of small businesses. A literature review reveals that financial services aren important for mobilizing resources for more productive use [12]. The extent to which financial services are made available for small enterprises is a measure of the degree to which small firms can save and accumulate their capital for further investment at the firm's level [13].

Looking at the emerging theory of microfinance, recent developments in developing countries have reinforced the contention that microfinance structures are essential for developing microfinance institutions over the last few decades. Its success has shown that microfinance is a major stimulus for combating poverty. Therefore, the microfinance multiplier effect on production and marginal propensity to consume. Access to credit by this group of people accelerates their income and equally increases their savings and consumption [3].

A. Review of Empirical Studies

There are a plethora of works that have examined the impacts of microfinance institutions on Nigeria's economy. Some of the recent studies conducted on the subject matter have shown that microfinance positively impacted poverty alleviation.

[1] a study conducted in Ekiti State using primary data with 150 samples from Ado-Ekiti environ and analyzed with the regression technique showed that microfinance has significantly helped alleviate poverty in Nigeria as an effective instrument for lifting the poor level of poverty working through increased self-employment opportunities and improved creditworthiness.

Ondo State [14] carried out a study that showed that microfinance positively impacted the study. The government should make an effort to ensure an efficient service delivery mechanism that would allow for effective use of economies of scale for group guaranteed loans. Moreover, more resources should be made available to the microfinance organization so that more people can benefit from the program.

Similarly, [5] in their work "Effectiveness of Microfinance Banks in Alleviating Poverty in Kwara State Nigeria" found that microfinance played a significant role in poverty alleviation by providing financial services to the active poor, creation self-employment opportunities, and provision of small loans to small businesses. [15] for Sokoto State, since microfinance directly relates to the development of small and medium enterprises, expansion and turnover increase. This study serves as a vital tool in the hands of entrepreneurs. This is because every entrepreneur wants to expand capital and combine those factors of production at a minimized cost to achieve its main goal of profit maximization. It could also be concluded that it will help business owners source more capital to develop its business enterprises.

[16] found that there had been an increase in household incomes, which were a direct result of microfinance programs. In contrast, [17] found that the income effect was due tits mistargeting microfinance program. The perceived increase in income was due solely to those already above the poverty line who had managed to access the program.

[18] Their study categorizes the causes of bankruptcy in small enterprises into three: lack of access to finance, lack of vital business skill or knowledge, and unfavorable economic climate. However, savings and credit facilities have the potential for improving the incidence of survival among more enterprises.

[19] argue in line with the findings of microfinance institutions' impact in Nigeria that microfinance is a key strategy for changing households' income levels. It is a scheme that increases household consumption, especially among low-income earners.

Agba, Ogaboh, Stephen, and Festus (2014) show that microfinance positively affects poverty reduction among low-income workers. It reduces household poverty, promotes low-income workers access facilities, encourages savings, and stimulates their economic effectiveness. The study recommends that the government make policies that would encourage the continuity of microfinance schemes in Nigeria and accelerate awareness among low-income earners on the benefits of microcredit schemes to the poor in Nigeria.

[20] also indicates that 'the evidence from micro-studies of favorable impacts from the poor to credit's direct access to credit is not especially strong.' The difference in income between the rich and the poor is rather significant in developing regions such as Central Africa, causing serious problems in their societies. Further, financial depth eases the microcredit constraints on the poor and the vulnerable populations and increases their productive assets and productivity, contributing to poverty reduction.

[9] revealed by using the computable general equilibrium (CGE) model to show that microfinance impacts Nigeria's economic growth. However, the model's overall significance shows that the microfinance banks' activities cannot be overemphasized in Nigeria's pursuance of certain economic growth. Therefore, the study recommends that the government create an enabling environment capable of supporting the microfinance banks in micro-credit delivery. The Central Bank of Nigeria, through its regulatory framework, should increase the asset base of microfinance institutions.

III. RESEARCH METHODOLOGY

This study made use of expo-facto research design explaining that the data computed are not subject to manipulations and are based on already existing data using series annual data sourced from various issues of Central Bank of Nigeria (CBN), Statistical bulletin and National Bureau of Statistics spanning a period covering between 1994 through 2015. The data to be extracted are the gross domestic product (GDP) which is being used to proxy dependent variable in the study; microfinance deposits ($M_{.D.}$) and loans and advances (M_L) which are the two independent variables used that is capable of explaining the influence of microfinance institution as a de facto in sustaining economic growth in Nigeria. The study adopts an econometric technique to analyze and test for the short run and the long-run relationship between the explanatory and the explained variables.

A. Model Specification

This study's modelssumes an underlying relationship between microfinance and economic growth and, therefore, adopt the modified work of [9] with the exclusion of micro finance banks' assets. In essence, microfinance contribute to the growth and development of the Nigeria economy through their efficient loans and advances disbursed for investment purposes to the public, and this assertion leads to the formulation of model 1 formulated in this study

MODEL 1

$GDP= f (M_{L,}\ \mu)$…………………………………..i

ML represents microfinance loans and advances to the economy as a whole. Due to the reason that the deposits mobilized can also affect the growth of the economy, there is the need to include microfinance banks deposits. The deposit is therefore included in the model above to obtain model 2, which is stated below as:

MODEL 2

$GDP = \alpha + \beta_0 M_D + \beta_1 M_L + \mu$…………………………ii

Where,

GDP = Gross domestic product

$M_{.D.}$ = Microfinance banks' deposit

M_L = Microfinance loans and advances

μ = White noise or stochastic variable

α = Intercept or constant parameter

β_0 & β_1 = Coefficient of estimates

f = Functional Notation

To avoid spuriously in the estimation, the model can also be stated in log linearized form as model 3 depicted below;

MODEL 3

Log (GDP) = α + β_0LogM_D + β_1LogM_L + μ……………………iii

Where

Log = Natural logarithm

From equation (iii) above, the model can further be stated in the time-series form depicted below;

MODEL 4

Log (G-DP)$_t$ = α + β_0Log$M_{D\ t}$ + β_1Log$M_{L\ t}$ + μ………………..iv

The model specified above will be analyzed and tested with various statistical tests on the significance of the result, which will include, Co-efficient of estimate (T-test) to reveal the relationship that exists between the dependent variable and each independent variable; Co-efficient of Multiple Determinants (R^2) to measure the rate at which the behavior of dependent variable is explained by the independent variables and also takes into account the measurement of the behavior that is not explained by the model (Error term); Overall Significance of the Model (F-TEST) to show if the model adopted is statistically significant.

IV. DATA ANALYSIS AND INTERPRETATION OF RESULT

Presentation of Ordinary Least Square Result

The computed result carried out for this study is logically summarized in the table to establish the relationship between the variables and the Ordinary Least Square (OLS) result showing the short-run relationship is presented below: -

Table Showing Ordinary Least Square (OLS) Result

Variables	Coefficients	Standard Error	T-test	Probability
C	1.774560	1.052382	1.686231	0.1081
MD	0.805819	0.082891	9.721448	0.0000
ML	0.036549	0.110682	0.330218	0.7448

R^2 = 0.988547 **Adjusted R^2** = 0.987341 **F-STAT** = 819.9565 **DW-STAT**= 0.726221

Sources: - OLS result computed

The result above shows that the constant parameter is positively related to the Gross Domestic Product (GDP) with a positive coefficient of 1.774560, which implies that if all explanatory variables are held constant in the short-run, the gross domestic product will increase by 1.774560units**.** From the OLS result, the coefficients of Microfinance Banks' Deposit ($M_{.D.}$) and Loans and Advances (M_L) shows a positive relationship with the dependent variable (GDP). Meanwhile, the micro-finance deposits ($M_{.D.}$) exhibited a positive and significant coefficient of 0.805819 (<.0000), which implies that a unit increase in the level of micro-finance deposits will increase the value of GDP by 0.805819 unit. In the same vein, the Microfinance Loans and Advances (M_L) exhibited a positive but insignificant coefficient of 0.036549 (<.7448), which implies that a unit increase in the level of M_L will increase the value of the gross domestic product by 0.036549 units. The coefficient of multiple determinants (R^2) reported a coefficient of 0.988547, implying that the explanatory variables ($M_{.D.}$ and M_L) have an approximate value of 98.86% predictive influence on explaining the changes GDP in the short-run. The Adjusted R^2 further ascertain this with the adjusted value of 0.987341, implying that 98.73% explanation of GDP behavior can be traced to the explanatory variables' totality with the remaining 1.27% behavior attributed to other variables outside the model otherwise referred to as the stochastic variables.

The t-test result revealed that micro-finance loans and advances (ML) and constant parameters are statistically insignificant. The micro-finance deposits (M.D.) are statistically significant. The T-test result implies that individually, $M_{.D.}$ would go a long way to influence GDP positively while the M_L might not influence GDP.

The test for the model's overall significance with an F-test result of 819.9565>0.000 showed that the whole model is statistically significant in explaining the variation in economic growth represented by the gross domestic product (GDP). This means that micro-finance will go a very long way in impacting economic growth.

V. SUMMARY, CONCLUSION, AND RECOMMENDATIONS

To a reasonable extent, the study has focused on the effect of micro-finance on economic growth and development. Specifically, micro-finance banks' deposits and the loans and advances of micro-finance banks are used as the independent variables whose effects on GDP are tested. As revealed from the results, the positive effect and relationship between microfinance activities and her roles in relation to economic growth and development showed its ability to sustain the economy since an increase in both variables ($M_{.D.}$ and M_L) would lead to an increase in GDP. Notwithstanding the problem of poor funding usually faced by microfinance banks, deposit mobilization is enough to cater to the economy's micro needs as a whole. Their tendencies to augment the financial needs of small scale enterprises are considerably acknowledged. The positive coefficient of loans and advances suggests that micro-finance institutions' loans and advances are a sine-qua-non for Nigeria's economic growth. The F-test showed that the model overall is very significant in explaining changes in

GDP. While the Durbin Watson statistics fall in the region of positive autocorrelation, the results suggest that the result be subjected to advanced statistical tests. However, the results of the study are in agreement with the studies carried out by [5], [15], Agba *et al*. (2014), and [9]. The result signifies that loans and advances represent a compelling strategy in microfinance banks' hands, aiming to contribute meaningfully to gross domestic product (GDP).

Based on the results obtained, the government recommended that the government create an enabling environment for micro-finance banks to deliver micro loans efficiently. Microfinance should reduce the lending rate to make microloans attractive. They should also embark on welfare packages and become more socially responsible by concentrating on channeling their funds to small and medium scale enterprises for productive uses to contribute meaningfully to the growth of the Nigerian economy. In conclusion, they should give potential borrowers technical and financial advice to make the loan self-liquidating.

REFERENCES

[1] J. O. Mokuolu, "Micro Finance Bank: Antidote to Poverty Alleviation in Nigeria: A Case Study of Ekiti State, Nigeria," European Journal of Economic and Financial Research, vol. 2, no. 6, pp. 24-33, 2018.

[2] B. Asuquo, "Microfinance and public," The Nation, p. 16, 18 May 2007.

[3] N. O. J., "Microfinance in Nigeria: Prospects and Problems," Thesis submitted to Economics Department, University of Jos, 2011.

[4] C. Anyanwu, "Micro-Finance Institutions in Nigeria: Policy, Practice, and Potentials," in G24 Workshop on Constraints to Growth in Sub-Sahara Africa, 2004 (November 29-30th).

[5] K. A. O. O. &. A. A. Yahaya, "Effectiveness of Microfinance Banks in Alleviating Poverty in Kwara State Nigeria.," Global Journal of Management and Business Research, vol. 11, no. 1, pp. 12-20., 2012.

[6] C. B. o. Nigeria, "Micro Finance Policy as a Strategy for Poverty Reduction," CBN Bullion, Abuja, 2005.

[7] G. Ehigiamusoe, "The Role of Microfinance Institutions in the Economic Development of Nigeria," Central Bank of Nigeria Bullion, vol. 32, no. 1, pp. 17-24., 2005

[8] K. M., "National Microfinance Policy Framework and Expected Impact on the Microfinance Market in Nigeria," CBN Proceedings of Seminar in Microfinance Policy, Regulatory and Supervisory Framework for Nigeria, 2005.

[9] A. A. E. A. K. K., "The Impact of Microfinance on Economic Growth in Nigeria," Journal of Emerging Trends in Economics and Management Sciences, vol. 5, no. 5, pp. 397-405, 2014.

[10] K. M., "The role of microfinance in poverty eradication," Proceedings of Seminar in Microfinance Policy, Regulatory and Supervisory Framework for Nigeria, 2005

[11] C. B. o. Nigeria, "CBN Statistical bulletin," Research and Statistic Department., Abuja, 2001,2004.2005.

[12] J. &. E. J. Watson, "Small business failure rate: choice of definition and industry effects.," International Small Business Journal, vol. 17, pp. 123-129, 1999.

[13] M. Hossain, "Credit for the alleviation of rural poverty: the Grameen Bank in Bangladesh," IFPRI Research, Washington D.C, 1988.

[14] O. I. O., "Impact of Microfinance on Poverty Alleviation in Ondo State," in Thesis, Owo, Ondo State: Rufus Giwa Polytechnic, Owo, Nigeria, 2012.

[15] S. K., Impact of Micro Credit on Small and Medium Enterprises of Service Operation in Sokoto Metropolis, Shehu Shagari College of Education, 2014.

[16] K. S. R., "Microfinance and poverty: Evidence using panel Date from Bangladesh," World Bank Economic Review., 1998.

[17] Morduch, What is Micro-Credit?, Gramen – page of Micro credit., 1988.

[18] J. &. S. S. Timmons, New Venture Creation. Entrepreneurship for the 21st century, 6th ed., McGraw Hill Companies, 2004.

[19] D. E. N. &. O. A. Okon, "Impact of Microcredit Scheme on Rural Farmers in Akwa Ibom, Nigeria," Journal of Agriculture and Social Sciences, vol. 8, pp. 65-68., 2012.

[20] W. Bank, "Finance for All? Policies and Pitfalls in Expanding Access," World Bank, Washington DC., 2007.

[21] Oni. I "(2012). "Impact of Microfinance on Poverty Alleviation in Ondo State. A thesis submitted to Rufus Giwa Polytechnic, Owo, Nigeria.," Thesis submitted to Rufus Giwa Polytechnic, Owo, 2012.

[22] C. B. o. Nigeria, "Report on Poverty Profile in Nigeria," CBN, Abuja, 2006b.

[23] C. B. o. Nigeria, "Micro Finance Policy Regulatory Framework," CBN, Abuja, 2006.

[24] C. B. o. Nigeria, "National Statistics of Socio-Economic Profile of Nigeria (1997-1999)," CBN Statistical Bulletin, CBN Headquarter Abuja., 2003.

[25] C. B. o. Nigeria, "Poverty Reduction through Micro-Finance," CBN., Abuja, 2005.

[26] Olufunmilayo Tope Afolayan, Timothy Ayomitunde Aderemi, "Environmental Quality and Health Effects In Nigeria: Implications for Sustainable Economic Development" SSRG International Journal of Economics and Management Studies 6.11 (2019): 44-55.