EMPIRICAL ANALYSIS OF HOLISTIC ACTIVITIES OF MICROFINANCE BANKS IN NIGERIA

BY

[1]ezeudu Ikenna Jude, Ph.D
Associate Professor of Banking and Finance
Department of Banking and Finance
College of Management Sciences
Michael Okpara University Of Agriculture, Umudike
IKENNAEZEUDU2014@YAHOO.COM
08036716491

Emori Enya Gabriel
Ph.D Scholar
Banking and Finance
Faculty of Management sciences
University of Calabar, Cross River State
+2348034567886

Abstract

This study examines the empirical impact of microfinance banks' activities (1981-2015). Data were collected for both the dependent variable and the independent variables. The dependent Variable is economic growth (Gross Domestic Product). The independent variables are Assets of microfinance Banks in Nigeria, Deposit Liabilities of Microfinance Banks in Nigeria and Loans and Advances of Microfinance. Secondary data were sourced from Central Bank of Nigeria Statistical Bulletin, 2015.. The data comprises of time series and cross sectional data which were pooled into a panel data set and estimated using Ordinary Least Square method of multiple regression. The result shows that there is a positive relationship between microfinance Banks Total Assets and economic growth in Nigeria. Also, Microfinance bank Loans and Advances impact positively on economic growth in Nigeria. .While, Deposit liabilities of Microfinance banks impacted negatively on economic growth in Nigeria within the period under review. It is recommended that the government should create an enabling environment capable of supporting the expansion and microfinance banks in microcredit delivery. Besides, Central bank of Nigeria through its regulatory framework should increase the asset base of microfinance institutions. Also, minimum capital requirement for Microfinance bank should be reviewed from time to time to be in tandem with current realities. Microfinance banks are encouraged to have good lending behavior. This is because of the positive and significant impact of credits on economic growth in economy. Strict and firm compliance with standard on assets quality necessary is necessary to financial institution especially Microfinance Bank. This is because good quality of banks' assets enhances better performance of micro finance banks.

Keywords: microfinance, deposit liabilities, performance, central bank of Nigeria, economy

Introduction

Banking operations started in Nigeria before the nation's independence in different forms as a reaction to rural economic growth and social development. It was intensified during the post-independence era and to this day, rural banking operation services have become more pronounced with the provision of micro credit to rural dwellers intended to boost small and medium scale investment predominantly financed and supervised by commercial banks. Throughout the country,

traditional group networks served as proprietors of financial exchange. They were led by traditional moneylenders who offered limited services and loans at disproportionately high interest rates. Nevertheless, it was documented that as early as 1936, the Government of Nigeria supported such exchanges as long as cooperative groups maintained their ordinance of coupling credit with regular and compulsory savings (OCWD, 2011; Haruna, 2007).

The collapse of the barter system of exchange before now and subsequent monetization of the economy in recent times, have exposed the need for some form of mobilization of savings through either formal or informal method among rural community dwellers to boost socio-economic development. This has given credence to a type of banking transaction known as rotational saving which ultimately is now common in rural communities and urban centers.

The practice of microfinance in Nigeria is culturally rooted and pre-dates modern banking era. The traditional microfinance institutions provide access to credit for the rural and urban, low-income earners. According to Ayodele et al, (2014), in Nigeria, micro-financing is not a new phenomenon as evidenced by such cultural economic activities as “Esusu”, “Adashi”, “Otataje”, etc, which were practiced to provide funds for producers in our rural and urban communities. What operates at present however is the effort of governments in Nigeria to modernize micro-financing in rural and urban communities to improve the productive capacity of the rural and urban poor, enhance their economic enhance economic growth and development in the economy. They are mainly of the informal Self-Help Groups (SHGs) or Rotating Savings and Credit Associations (ROSCAs) types. Informal financial groups exist in all parts of the country and they are in form of traditional groups that work together for the mutual benefits of their members. The micro and small business entrepreneurs in Nigeria rely heavily on the informal financial market for funding. This condition provides a platform for informal institutions to attempt to fill the gap usually based on informal social networks. In many countries, people have relied on the mutually supportive and benefit-sharing nature of the social networking of these sectors for the fulfillment of economic, social and cultural needs and the improvement of quality of life (Portes, 1998). Hence, the operation of microfinance institutions date back to the pre-independence period in Nigeria when traditional thrift saving system and activities of the traditional group networks served as proprietors of financial exchange led by traditional money lenders could not handle the growing expansion and needs of people in rural communities (Apere, 2016).

Besides, glaringly and very fundamentally too, was a great concern and gap by the different commercial banks (Deposit Money Banks) in the country to handle the socio-economic needs of the rural communities and dwellers following the hard financial policies in individual or group assessing of loans and other facilities by the poorer people who are predominantly rural dwellers (Anyanwu, 2004). The failure of conventional banking in Nigeria to meet the socio-economic complexities (needs) of the rural communities that consequently experience rapid growth and changes as well as government desire to reach rural areas with development gave rise to the emergence of community banks (now microfinance banks) as a way of providing financial answers to the low income earners or people so as to finance and improve their income generating activities, i.e. productive activities.

Prior to year 2005 the government implemented other poverty reduction developmental initiatives as mentioned earlier. There developmental programmes were established to improve living standards, particularly in the rural areas. However, most of the programmes were poorly organized/ administered thereby not achieving the objectives of the programmes.

In 2005, the Central Bank of Nigeria (CBN) formulated a new policy framework to enhance the access of financial services to micro-entrepreneurs and low income households who require such facilities (soft loans and investable funds) to expand and modernize their operations and their contribution to economic growth and development in Nigeria. The objective is in line with the institution’s policy in ensuring financial inclusion for all, such that financial services reach the poor whether in rural or urban communities as this would help improve their productivity level and also help contribute to the nation’s gross domestic product (GDP). In 2004, the Central Bank of Nigeria asserts that the emergence of microfinance institution has been largely due to the inability of the formal financial institutions to provide financial services to both the rural and urban poor. In view of the need for financial inclusion, both the government and non-governmental agencies have, over the years, implemented series of microfinance programmes and institutions as well as governmental

agencies providing policy strategies needed to improve the productivity of micro, small and medium scale enterprises.

Microfinance banks in promoting and enhancing economic growth in Nigeria economy is faced with stiff difficulties like repayment problems, inadequate finance (poor financing). In a bid or in an attempt to resolving the above identified problems salvaging microfinance banks in Nigeria, this research work is intended to provide answers to the following questions: how have credit institutions, especially microfinance banks, been able to impact positively on the level of economic growth in Nigeria in the midst of the aforementioned problems; do the rural and urban poor really use the loans and advances from microfinance banks for productive activities that will promote and enhance economic growth or do they use it for their personal needs i.e. getting married, build houses; how has financial inadequacy or insufficiency in microfinance banks affected or limited the availability and affordability of soft loans to aspiring entrepreneurs in Nigeria.

It is therefore very pertinent for us to undertake an empirical analysis of the holistic activities of Micro finance Banks in Nigeria. While the specific objectives include: to determine the effects of Microfinance Banks' Assets, Deposit Liabilities and Loans and Advance on Economic Growth (Gross Domestic product) in Nigeria. The Paper is dividend into five sections. Section one is the introduction while Section two is Literature Review. Section three is Methodology and section four is Data and Result. The paper has the Conclusion and recommendations as the final section.

Literature Review

Conceptual Framework

Microfinance is not a new financial service In Nigeria as shown by such cultural economic activities as "Esusu", "Adashi", "Otataje", etc, which was practiced with the purpose of providing funds for producers in our rural communities .What is current however is the effort of the government at all level in Nigeria to transform micro-financing in rural and urban communities, to improve the productivity level of rural and urban poor and enhance their economic standing which in the long run increases the level of gross domestic product (GDP), (Ayodele et al, 2014). Asian Development Bank (2000) went further to say that microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to poor and low income households, and their micro enterprises.

Microfinance is the supply of loans, savings and other basic financial services to the poor. These owners of micro and small enterprises require a diverse range of financial instruments to meet working capital requirement, build assets, stabilize consumption, and shield themselves against risks (Ehigiamusoe, 2005). Financial services include working capital loans, consumer credit, savings, pensions, insurance, and money transfer services. In practice, microfinance is much more than disbursement, management and collection of little bits of loans. In a more comprehensive style, (Ehigiamusoe, 2005), stressed that microfinance refers to "flexible processes and structures by which financial services are delivered to owners of microfinance enterprise on a sustainable basis". Microfinance recognizes the peculiar challenges of microenterprises and of their owners. It recognizes the inability of the poor to provide tangible collateral and therefore promotes collateral substitution. Disbursement and repayment are structured to suit credit need and cash flow pattern of small businesses (Aderibigbe, 2001).

Kimotha, (2005) defined microfinance simply as the provision of very small loans (micro–credit) to the poor, to help them engage in new productive business activities and/or to grow/expand existing ones. The microfinance bank is a financial institution that is closest to the grassroots and the equity is 100 percent private sector owned (Schreiner,2002). It strives for efficiency, fund mobilization and accountability. It does not deal in foreign exchange, though; it can create the conditions for earning through its loan diversification and guidance. The concept of microfinance banking is a self-sustaining financial institution designed to be owned and managed by individuals, who are regarded as financial experts known for the purpose of deposit mobilization and the provision of financial services to the people for the promotion of rural development (Acha, 2007).

The release of microfinance Bank Policy on December 15, 2005 by the Central Bank of Nigeria (CBN) was the formal commencement of microfinance banking in Nigeria. The policy was

prepared in exercise of the powers conferred on the Central Bank of Nigeria (CBN) by the provisions of section 28, subsection (1) (b) of the CBN Act of 1991 (as amended by the CBN Act 2007) and in pursuance of the provisions of sections 56-60 (a) of the Banks and Other Finance Institutions Act (BOFIA) 25 of 1991, as amended. To affirm the readiness of CBN in implementing microfinance banking in Nigeria, a further circular was issued on February 3, 2006 and addressed to all chairmen, directors and managers of community banks and the public on the requirement for the conversion of community banks to microfinance banks (CBN, 2005). However, Nigerian economy can be regarded as a dualistic or two-sector economy, a relatively small urban sector and a large rural sector. At least 75 percent of the nation‘s resources are in the rural area, yet the rural area lack concentration of financial institutions (Adeyemi, 2008; Nwanyanwu, 2011). Though, Nigerian banks are not evenly branched and even the few branches are concentrated in the urban areas. The reason for this is that the rural areas lack adequate infrastructures and that the level of business in these areas could not generate enough turnovers to cover overhead costs as well as making adequate profits. This was more so when agriculture, which is the dominant occupation in the rural area is now undergoing a steady decline. Due to the inability of the conventional banks to sufficiently address the gap in the Nigerian financial system coupled with their unwillingness to fund small businesses; this however, made the government to come up with an effort to bring banking services nearer to the people particularly those in the rural areas via the introduction of microfinance banks (Yunus& Allan, 1999; Okpara, 2010; Kuchler, 2011).

Community banks which have been transformed into microfinance banks were developed as self-sustaining financial institution owned and managed by local communities such as community development associations, town unions, cooperative societies, farmer’s group, social club whose sole aim or objective is to promote rural development and enhance economic growth as well economic development at the grassroots level by improving the saving habits of the people. Microfinance banks serves as part of the veritable vehicles for channeling funds for rural development. The total assets of microfinance banks grew from ₦981.0 million to ₦15,463.5 million in the year 2002. The number of microfinance banks, which was 66 in 1991, peaked at 1355 in 1995 but fell drastically to 769 in the year 2002, and in 2006 it further fell to 750. The number however, increased to 801 as at the end of 2010 (CBN Statistical Bulletin 2010).

Theoretical Framework

This section deals with some of the various models and theories relating to the financial structuring of Microfinance Banks. The formal micro- finance model is built around the theories discussed under including the bank capital channel model, the capital constraint model, the Lifecycle theory, Pecking order theory and the agency framework hypotheses.

Pecking order theory

The pecking order theory is one that was developed by Myers Sanders in 1984. It implies that the financing requirements of firms (usually SMEs) are catered for in a hierarchical order. The initial source of funds is internally generated. As the amount of funds required is increased, the next source is via the use of debt. Further increase in the need of funds leads to sourcing for external equity. Thus there tends to be a negative relationship between profitability and external borrowing by small firms. This further implies that the debt equity mix of a firm should be heavily dependent on the hierarchical financing decisions over time. This theory thus maintains that businesses organizations always prefer to use internal funds. If it is not available, the organization will prefer to use debt as an external source of fund before it considers equity financing. Therefore, by simply examining a firm’s debt equity mix, one can have a general understanding on the health of that organization. When managers issue new shares, the public believe that the managers have concluded that the firm is valued more than its actual worth and as such they want to quickly utilize the opportunity. This leads to the investors valuing these new stocks lower than before. The theory also implies that older firms should have more funds available to promote growth since they have had more opportunities to accumulate internally generated funds i.e retained earnings.

Holmes and Kent (1991) found that SMEs observe strict adherence to the pecking order due to the fact that it is difficult for them to acquire externally generated finance. SMEs rely heavily on private

markets thus limiting their financing sources. These restrictions on the type of finance available to SMEs coupled with the small firm‘s insistence on first using internal sources of capital (Holmes and Kent, 1991), creates a unique structure for small business.

Financial growth theory

This theory was developed by Berger and Udell (1998). According to them, as a business matures over the years, its financial obligations and financing options metamorphose having more information available to the public. According to them, firms that are smaller, younger and possess more ambiguous information must depend on initial internal funding, trade credit, or a type of financing called angel finance. (Angel finance is one that occurs when an individual or organization provides a limited amount of financial backing for a start up business with more favourable repayment plan). As the firm grows, it qualifies for acquiring both venture capital and midterm loans as sources of both intermediate equity and intermediate debt respectively. Further aging of the firm makes it to become bigger and less informationally murky. This thus qualifies the firm to have access to both public equity and long term loans as sources of both long term equity and long term debt respectively.

The capital structure of SMEs is thus very different from that of bigger firms because SMEs rely more on informal financial market which limits the type of financing they are able to secure. The SMEs initial use of internal financing leads to a peculiar state of affairs whereby capital structure decisions are heavily dependent on the limited financing options. Therefore, SMEs possess varying capital structures and are financed by various sources at different stages of their development (Berger and Udell, 1998). Bank capital channel theory implies that the lending behaviour of banks to SMEs is heavily dependent on capital adequacy requirement. Obamuyi (2007) showed that a change in interest rate can influence banks lending to SMEs through bank's capital. This implies that increasing the value of interest rates raises the cost of banks' external funding, but reduces banks' profits and capital. The tendency is for the banks to reduce their supply of loans if the capital constraint becomes binding. On the other hand, the banks could also become more willing to lend during situations when the interest rate is favourable.

The Life cycle model

This model was developed by Weston and Brigham (1981). According to them, accelerated growth of a small firm could lead to the firm lacking capital. This was because; most of the time, small firms are created with just internal funds from the owners. As the firm grows, the amount of owners' equity is no longer capable of sustaining it and the firm would have to resort to external sources of funds in order to survive. Thus, accelerated growth could result in illiquidity and thus the firm would have a decision to make between reducing its growth rate or becoming illiquid and sourcing for external funds. Therefore Weston and Brigham (1981) concluded by showing that SMEs that grow in size are very likely to have an increase in its debt structure.

Contract Theory

According to Wikipedia (2015), this theory was first formally treated by Kenneth Arrow. It studies how economic actors construct contractual arrangements in the presence of asymmetric information. Information asymmetry arises when one of two parties engaged in a business transaction happens to have more or different information than the other. In such a situation, one party does not have adequate information about the other party resulting in inaccurate decision making. This circumstance leads to a potential adverse selection and moral hazard problems in the credit market. Adverse selection is a problem arising from asymmetric information which occurs prior to the transaction actually occurring. Here a lender may decide not to lend money even though the borrower has the ability to make loan repayments as expected, just because he does not have enough information about the borrower to aid in his decision making.

Review of Literature on Microfinance and economic growth

Microfinance banks can be seen as an economic growth method intended to advantage the low income class of a given country like Nigeria, both rural and urban poor. Microfinance according to

the Central Bank of Nigeria (2005) is about providing financial services to the poor who largely constitute the 65% excluded from access to financial services of conventional banks. More so, lack of access to credit has been identified as the reason behind the growing level of poverty in many developing countries. This further emphasizes the crucial role microfinance institutions play in economic growth especially in their service for un-served and underserved markets (economically active person in rural and urban areas) to help meet economic and development objectives which include to reduce poverty (considered as the most important). Create employment, help existing businesses to grow or diversify their activities, empower women and other disadvantaged groups and even encourage the growth of new businesses (Khander, 2003).

Majority of Nigerian population reside in the rural areas and the poverty level in the economy is about 80% (Eze, 2011). This compelled the Federal Government of Nigeria to initiate series of publicly micro-financed programmes targeted at the rural and urban poor. Such programmes included Rural Banking Programme, the Nigerian Agricultural and Cooperative Bank (NACB), Peoples Bank of Nigeria, Community Banks, Nigerian Agricultural Insurance Corporation, the Family Economic Advancement Programme, National Poverty Eradication Programme (NAPEP) (CBN, 2005).

The rural bank scheme started in 1977 under the supervision of the Central Bank of Nigeria (CBN). The mechanics of the scheme mandated commercial banks to extend their branch network to various rural areas in order to provide adequate financial services in their areas. The numerical target of at least one branch in every local government area was met by the year 1991 and prior to the termination of the programme; over 700 rural branches were opened nationwide (Aligu, 2003).

However, the mainstream commercial banks failed to meet the credit needs of the people, by mobilizing their deposits without granting credit facilities to most depositors. Most of the funds generated from the rural branches were channelled to meet the needs of the customers of branches located in the urban commercial cities. Thus, little or no impact was made in the lives of the rural residents.

In 1986, the Central Bank of Nigeria deregulated the banking industry following the Structural Adjustment Programme (SAP), some of the loss making branches in the rural areas were shut down while others remained cash centres. The failure of the rural banking led to the establishment of the Peoples Bank of Nigeria, by the Federal Government in 1988.

The People's Bank of Nigeria was established to encourage savings and provide loans to the small and medium scale enterprises and households all over the country. However, the bank's loan approval process were inefficient, thus the level of non-performing loan soared and the bank's asset quality deteriorated, charges on bad and classified loans were high, and profitability was further impaired by rising overhead cost. With all there problems, the financial condition of the banks deteriorated and consequently resulted to insolvency (Oyeyomi, 2003, Anyanwu, 2004).

The scheme involved building self-sustaining community or group of communities and provided financial services, particularly mobilizing deposits and loans to people residing in the locality. Credit facilities were typically granted based on the recognition of the borrower and the availability of a third party guarantor. The first community bank was incorporated in December 1990, and a minimum share capital of N5 million was needed to obtain a community banking license.

The power to regulate and issue provisional license to the community banks was subordinated by Central Bank of Nigeria to the National Board of Community Banks in Nigeria (NBCN). The association successful issued provisional licensees to 1366 community banks between 1990 and 1997. During that period, the Central Bank of Nigeria was responsible for granting final operating license to community banks that had successfully operated for a minimum of two years. Although most of the community bank were able to reach their target market (lower end of the population), performance was weak and a significant number of them were poorly funded (CBN 2002).

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. Microfinance is not a charity despite its 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 for reason of their poverty, which is lack of

command over assets. It therefore places obligation on the borrowers for proper utilization and complete repayment of borrowed amounts even at commercial interest rates (Kpakol, 2005).

From the literature, three (3) features distinguished microfinance from other formal financial products. These are: smallness of the loans advanced or savings collected, the absence of asset based collateral and, simplicity of operations (Ogbunaka, 2003). Given these characteristics, microfinance institution (MFI) has come to be defined as any institution that provides credit and other financial services to the low income entrepreneurs who are traditionally not served by the conventional/formal financial institutions.

There have been conflicting ideas about the impact of microfinance in the transformation of rural dwellers in Nigeria by various researchers. Brau & Woller (2004) noted that the specific impacts of microfinance are hard to pin down and even harder to measure. They suggested that impact assessment require the adoption of research methodologies capable of isolating specific effect out of a complicated web of casual and mediating factors.

Many have subscribed to the belief that microfinance is an effective and powerful tool for poverty reduction. To affirm the above statement, Anien, Rai & Topai (2003) focus on the ability of micro finance to reach the poor and conclude that microfinance has served people below and above the poverty line. The result of empirical evidence indicates that the poorest can benefit from microfinance from both on economic and social well being point of views, and that this can be done without jeopardizing the financial sustainability of the micro financial institutions (Zainan, 2000; Robin, 2001; Dahiru, 2008; Nwankwo 2007).

The poor can benefit from microfinance. Khandker (1998) in a study “Fighting Poverty Micro credit” using statistical method on assessment on impact of micro finance among three Bangladesh programs, found that every additional ‘takas’ lend to a woman add additional of 0.18 taka to annual household expenditure. Ryne & Holt (1994) noted that the microfinance institution is now a growing phenomenon all over the world. It is emerging as a rapidly growing financial services industry worldwide as a solution to the crippling effects on the conventional banks interest on the poor and those operating micro and small scale enterprises.

In a study conducted by Onyeagocha, Chidebelu, Okorji, Ukoha, Osuji & Korie (2012) on the determinants of loan repayment of microfinance institutions in South East States in Nigeria, using a cross-sectional data and a multi-stage sampling technique. The results of the study revealed that the formal segment was more organized, better equipped with higher quality and well motivated staff than the semi-formal and informal segment. Four microfinance banks were selected as sample size; they are from formal (commercial and development banks), semi-formal (NGO-MFIs and community bank (CB)) and informal (Rotating Savings and Credit Association (ROSCAS), isusu, etc). The study also identifies outreach, shocks, training duration, loan size and credit officers experience as the determinants of loan repayment rate in South East States in Nigeria.

Taiwo (2012) in another study of the impact of microfinance banks on welfare and poverty alleviation in South West States in Nigeria using regression analysis. The study indicates that from the analysis of the data collected from the customers of microfinance banks in Ogun and Lagos States of Nigeria shows that micro financing has improved the welfare of the enterprises and the individuals in terms of improved savings, earning (both for individual wage earners and the self-employed), facilitated access to loan facilities, improved sales revenue as well as the level of employment and growth in the micro-enterprises examined. The study recommend that since higher education have been found to increase the income of the microfinance institutions (MFIs) clients; the MFIs clients should be encouraged by the microfinance institutions (MFIs) to improve on their current level of education by engaging in adult education or life-long learning s this will have the potency to increase their level of income.

Babajide (2011) studied the effects of microfinancing on micro and small enterprises (SMEs) in South West Nigeria using Diagnostic Test Kaplan-Meier Estimate, Hazard Model and Multiple Regression Analysis. The study indicates that microfinance enhance survival of small business in South West Nigeria; that microfinance does not enhance growth and expansion capacity of MSEs in Nigeria; that microfinance impacts significantly on the level of productivity of MSEs operators in South West Nigeria and that the provision of non-financial service by microfinance institutions enhances the performance of micro and small enterprises (MSEs) in South West Nigeria.

Nguto, Falaye, Elijiah, Agnes, Evans, Olayide and Adama (2013) in a recent study on the analysis and computation of the performance of micro finance banks in Nigeria focusing on standard microfinance bank, Yola. The study employed a standard computer package and chi-square test application. The study shows that, although the portfolio growth of standard microfinance banks Yola is not averagely 50.20% as claimed by the bank but there is an appreciable growth of 28.96% in the bank.

In another recent study by Godson (2013) on the impact of microfinance on the development of Small Scale Enterprises in the Ledzorkuku Krowor Municipality in the Greater Accra Region of Ghana using descriptive statistics which involve simple percentage, graphical charts and profitability ratio. It was found that there is significant number of the SMEs has the knowledge of the existence of MFIs and some acknowledge positive contributions of MFIs loans towards promoting their growth. The study recommends that microfinance institutions should at all-time give professional advices to SMEs since proper professional advice will inform the lending microfinance institutions whether the amount the SMEs requested for is too much for the project or less.

Finally, Olaitan (2006) observed that microfinance banks have disbursed more than N800 million micro credits to over 13000 farmers across the country to empower their productive capacities. As such, it is expected that agricultural output will increase with the increase in funding.

Hulme and Mosely (1996) examine the impacts of micro finance programmes on income and poverty through the effects on productivity, technology and employment. Khandker (1998) expands the analysis to include effects on seasonality of consumption and labour, children's nutrition and schooling, fertility and contraception. Zeller, et al. (1997) analyzes the impacts that micro finance programmes might have on food security. Cohen and Sebstad (2000) examined the effects of the programmes on the risk management strategies of poor households, which affect the degree of their deprivation and vulnerability. (Cohen and Snodgrass, 1999) compared the impact of micro finance services (savings and credits) on clients, and the evidence suggested that borrowers had higher medium incomes and spent more on foods.

Chirwa (1997) specified a probit model to assess the determinants of the probability of credit repayment among smallholders in Malawi. The model allows for analysis of borrowers as being defaulters or nondefaulters. Various specifications of the X-vector were explored by step-wise elimination. However, only five factors (sales of crops, size of group, degree of diversification, income transfer and the quality of information) were consistently significant determinants of agricultural credit repayment.

Marr (2002) documents the use of communal, the case of communal banking programme in Peru where group dynamics are engendered by the joint-liability micro-being of participants. In her case study, tension between financial and organizational sustainability has been built up to such a scale that it has produced a fundamental instability of the systems, leading to the fracturing of group and greater exclusion of the poor. Scholars like Liew (1997), Cornford (2000) and Mathins (2003) have argued that gaining access to credit in order to form micro entrepreneurial activities mostly does not address the needs of poor clients, instead the clients may be forced to 'invent 'a micro business plan in order to access sums of money, which they can repay but which may not necessarily be used for any income-generating purpose.

Focusing on the Pacific, Liew (1997) in particular notes that, in rural communities and especially among the disadvantaged, the demand for cash (micro credit) is primarily to meet emergencies, for schooling of their children, to meet traditional and religious obligations and for other basic necessities. He maintains that the demand for cash is rarely for starting a microenterprise or income-earning activity, especially, where there is no access to markets and/or business opportunities, then low-income clients are likely to find micro-credit of little use. He therefore concludes that for this category of clients, access to saving rather than micro credit may be perceived as far more useful.

On the contrary, Mathins (2003) observes that micro credit (an extension of very small loans to unemployed and poor entrepreneurs as well as other living in poverty that are not considered bankable) is helpful in engaging people in self-employment project that enable them to generate an income. This is so as most poor people gain little access to financial products and services of

commercial banks that usually prefer to deal with large commercial interest and state owned enterprises thereby reluctantly ignoring the poor people in Nigeria as in less developed countries.

Microenterprises in Nigeria have not made the desired impact on the economy (Nwachukwu, 2012). This may not be unconnected to the numerous challenges facing the enterprises, among which is finance. Olorunshola (2001) rightly observed that the major gap in Nigeria's industrial development process is lack of long and in some cases short term finance for Microenterprises.

Microenterprises usually raise their finance through informal sources. The sources comprise owners' savings/retained earnings, contributions/borrowing from friends, relations etc (Ango, 2011). In most cases finance generated from informal sources fall short of the required capital for Microenterprises (Okungwu and Saleh, 2004). To raise the balance of the required finance, entrepreneurs look up to the formal sources, which comprise banks, other financial institutions, cooperative societies and government loans agencies (Ango, 2011). There are a lot of challenges for Microenterprises in raising finance through the formal sources, especially as it affects banks and other financial institutions (Lawal, 2010).

Dauda (2007) evaluates the performance of Nigeria's community banking scheme and observes that deposits generated significantly grew over the period of evaluation (1992 – 2004). The study attributes the deposit growth to improved grass root banking habit. Although their aggregate loan portfolio to agriculture and rural based real sector activities increased nominally over the period, the credit exposures are relatively much lower than their exposure to general commerce, (19.2% against 47.6%). The study remarks that this trend is counter-productive to policy efforts at boosting real sector growth and sustainable economic development in Nigeria.

Microfinance banks are being used in every country now to achieve Millennium Development Goals (MDGs). Availability of Sustainable financial services helps owners of micro enterprises to grow, finance income, accumulate assets and reduce their vulnerability to external shocks. Access to financial services enables poor households to transform from everyday for survival to planning for the future, investing in better nutrition, their children's welfare and empowering women economically and socially (Ehigiamusoe, 2005). Oter (1999) defined microfinance bank as an institution that is not meant to provide capital to the poor which will in turn reduce poverty but the institution that provide fund to the poor both in urban and rural areas who have no access to capital from the deposit money banks or formal banks.

Oluyombo (2011) attempt to investigate the contributions of microfinance banks to Nigeria's economic growth and employs credits disbursed by the microfinance institutions as a proxy for their operational activities. The study employs the Ordinary Least Squares (OLS) regression technique and finds a weak, though positive relationship between Nigeria's microfinance banking operations and the nation's economic growth. Consequently, it recommends that microfinance institutions should channel very high proportion of their credits to the productive and real sectors of the economy for valuable impact of their operations on Nigeria's economic growth.

Babajide (2012) studied the effects of micro financing on micro and small enterprises (SMEs) in South West Nigeria using Diagnostic Test Kaplan-Meier Estimate, Hazard Model and Multiple Regression Analysis. The study indicates that microfinance enhances survival of small business in South West Nigeria; that microfinance does not enhance growth and expansion capacity of MSEs in Nigeria; that microfinance impacts significantly on the level of productivity of MSEs operators in South West Nigeria and that the provision of non-financial service by microfinance institutions enhances the performance of micro and small enterprises (MSEs) in South West Nigeria.

Okpara (2010) examines the critical factors that induce poverty among the enterprising poor in Nigeria and the extent to which micro credits have assisted in alleviating poverty. The study's selected causative factors for poverty include low profit, high cost of start-up or expansion funds for business and low rate of business growth. Employing two-stage regression technique within a quadratic equation framework, the study finds that in the first or take-off stage of microfinance banking, poverty was observed to have increased, though at a declining rate with increase in micro credits. In the second stage of the study which started from the year 2001, persistent increases in disbursed micro credit facilities are observed to have significantly lowered the poverty index in Nigeria. Consequently, the study calls for policy measures to establish microfinance institutions in every community in Nigeria.

In recent time, some researchers on micro financing have investigated whether micro credit programs that are popular in Nigeria has reached the relatively poor in the urban and rural areas of the country. Some of the researchers have shown that there is significant positive impact of microfinance on micro credit programme as it relates to first six out of seven Millennium Development Goals (Adamu, 2007; Irobi, 2008; Aman, 2000; & McCulloch & Baulch, 2000). This means that microfinance bank is an effective and powerful tool for poverty reduction in any country. Amin, Rai & Topai (2003) confirmed that microfinance has served people below and above the poverty line.

Since the introduction of microfinance banks in Nigeria is the inability of Nigerian Deposit Money Banks to provide sufficient financial service to the rural poor, Microfinance banks have taken up the challenges of the gap created by the Nigerian Deposit Money Banks. Microfinance banks can be seen as an economic growth method intended to advantage the low income part of a given country like Nigeria, both rural poor and urban poor (Nwankwo, et al 2013).

Again, Robinson (2001) stated that microfinance is a supplier of loans and other financial services to the rural poor. Microfinance bank is the economic growth method with the purpose of advantageous of the male and female rural and urban poor in the country like Nigeria. Microfinance banks are institutions that are established to provide financial services to the poor. Microfinance institutions can be non-governmental organisations, savings and loan cooperatives, loan unions, government banks, commercial banks or non-bank financial institutions (Ledgerwood, 1999; World Bank, 2007). It seeks to make financial services available on a sustainable basis to the economically active poor, low-income earners and micro, small and medium enterprises through privately owned enterprises.

In both developed and developing countries, microfinance banks have been the strategy for poverty alleviation and human empowerment. In recent years, micro enterprises are using microfinance banks or institutions for an easy way of financial services.

Methodology

The best econometric approach for analyzing the time series relationships is employed. This is the Ordinary Least Square (OLS) method. It is regarded to be superior to all other estimation technique because of the '*BLUE*' **(**Best, Linear, Unbiased, and Estimator**)** property it posses.

Model Specification

A simple model that tends to capture the activities of the microfinance banks in Nigeria between the periods of 1992 – 2015 is adopted. The model for the study is specified as

GDP= F (Microfinance banks' activities)………..(1)

$GDP = \beta 0 + \beta 1AST + \beta 2DPL + \beta 3LOA + U$…….(2)

Where

F= Function

GDP = Gross Domestic Product

AST = Assets of microfinance banks

DPL = Deposit Liabilities microfinance banks

LOA = Loans & advances microfinance banks

βs = parameters to estimate, $\mu 1$ is a white noise or error term.

Data Presentation

Table 4.1 The tabular presentation of Gross Domestic Product (GDP), Assets of Microfinance Bank in Nigeria (AST), Deposit Liabilities of Microfinance Bank, and Loans and Advances of Microfinance Bank (LOA) of Microfinance Banks in Nigeria (1992-2015)

Year	Gross Domestic product at Current Basic Prices-GDP (N Billion)	Assets of Micro finance Banks in Nigeria (AST) (N Million)	Deposit Liabilities of Microfinance Banks (DPL) in	Loans and Advances of Microfinance Banks in Nigeria

			Nigeria (N Million)	(LOA) (N Million)
1992	875.34	967.2	639.6	36.9
1993	1,089.68	3198.6	2188.2	74.6
1994	1,399.70	4693.2	3216.7	179.3
1995	2907.36	4106.5	2834.6	107.9
1996	4032.30	4432.5	2876.3	99
1997	4189.25	4706.2	3181.9	77.9
1998	3989.45	6,477.2	4454.2	137
1999	4679.21	8903.6	4140.3	62.5
2000	6713.57	12,014.7	7689.4	33.4
2001	6895.20	4884.4	3294.0	12.0
2002	7795.76	15,463.5	9,699.2	41.7
2003	9913.52	28689.2	18,075.0	77.5
2004	11411.07	34,162.3	21,407.9	98.9
2005	14610.88	82,866.9	47523.7	370.8
2006	18,564.59	55,145.8	34017.7	384.3
2007	20657.32	75,549.8	41,217.7	497.9
2008	24296.33	122,753.7	61,568.1	3034
2009	24,794.24	151,610.0	76,1662.0	3591
2010	54612.26	170,338.9	75,739.6	3522.9
2011	67980.40	117,872.1	59375.9	4,591.9
2012	71713.94	189,293.4	98,789.1	7,839.6
2013	80,092.56	237,837.6	121,787.6	10,272.6
2014	89,043.64	221,652.3	110688.4	9,946.3
2015	94144.96	343,883.1	159,453.5	29,749.3

SOURCE: Central Bank of Nigeria Statistical Bulletin, 2015.

Discussion of Findings

The estimated regression with t-statistics of individual parameter in parenthesis is given as
R2 = 0.91
Adj R^2= 0.90.
F statistics = 71.73
(0.32) (1.153) (-2.70) (7.537)
From equation 2 under model specification in Methodology
GDP = β0 + β1AST + β2DPL + β3LOA + U…….(2)
With the estimation of the model above, we have
GDP = 92.27 + 0.3855AST -0.0414DPL + 0.8039LOA + U…….(3)

The equation above shows the estimated regression equation used to analyse the empirical impact of microfinance on economic growth in Nigeria.

The regression result is fully displaced in Appendix 1. The R2 of 0.91449 or 91.49% is a measure of high level of goodness of fit. It shows that Asset (AST) of microfinance has positive impact on economic growth. An increase in Assets base of micro finance banks in Nigeria will leads to 0.3855 or 38.55 % increase in economic growth (gross domestic product). This implies that strong capital base is necessary for microfinance banks to perform its expected roles of micro financial intermediation in the economy. The Assets base serves as a barometer to determine the long run operational tendency of microfinance banks.

It also shows that Deposit liability (DPL) has a negative impact on economic growth in Nigeria. A percentage increase in deposits of customers tends to reduce gross domestic product by 0.041466 or 4.14%. This means that excessive mobilization might tends to reduce the working capital of small and medium scale enterprises since they are the major clients of microfinance banks in

Nigeria. This will in turn affect the survival of these firms thereby affecting economic growth negatively. This is also supported by the trade off between the short run and long run impact of savings. Savings in the short run tends to reduce the disposable income of the saver hence has a negative impact on aggregate demand.

Loan and advances (LOA) has a positive impact on economic growth with a coefficient of 0.8039, i.e 80.40%. This means that availability of micro credit facilities tends to boost investment, increase productivity and income, hence increase economic growth. This is because as more funds are being made available for investment purpose, new firms will emerge while the existing ones can expand their scale of operations which then increase aggregate output.

The t-statistics is used to measure the statistical significance of the individual variables. AST and DPL were statistically significant at 5%. While LOA is not statistically significant at 5%. The R^2 which measures the explanatory power of the model is estimated to be 0.914.This means that about 91.4% systematic variation in GDP is jointly explained by all the three explanatory variables while 8.6% is attributed to other variables not included in the model. This is further supported by the statistical significance of the F-statistics which was statistically significant at 0.01level. Hence, the overall model is statistically significant.

Conclusion and Recommendations

The role of Microfinance bank in economic growth cannot be over-emphasized. It is revealed from the findings that Assets of Microfinance Banks and Loans and Advances of Microfinance Banks positively increase economic growth in Nigeria. The deposit liabilities of Microfinance banks negatively affect economic growth in Nigeria. Loan and Advances to the public has a significant impact on economic growth in Nigeria. However, the overall significance of the model shows that the activities of the microfinance banks cannot be overemphasized in the pursuance of a sustained economic growth in Nigeria. The study also noticed a phenomenal increase in the value of Total Assets, Total Deposit liability and Loans and Advances of Microfinance Bank in Nigeria for the period under review. This positive increase cannot be unconnected with banking sector reforms within the period under review. Periodic review of minimum capital requirements have also contributed to the increase noticed above. This study has come to an end with the following recommendations:

1. The government should create an enabling environment capable of supporting the expansion and microfinance banks in microcredit delivery.
2. Central bank of Nigeria through its regulatory framework should increase the Assets base of microfinance institutions.
3. Minimum capital requirement for Microfinance bank should be reviewed from time to time to be in tandem with current realities and so as to promote micro banking and financial intermediation.
4. Microfinance banks should do their best in order to ensure good lending behavior. This is because of the positive and significant impact on credits on economic growth in economy.
5. Strict and firm compliance with standard on assets quality necessary is necessary to all financial institution especially Microfinance Banks. This is because good quality of banks' assets enhances better performance of micro finance banks.

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