IMPACT OF MICROFINANCE BANKS IN BANKING SECTOR DEVELOPMENT IN NIGERIA.

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Abstract
This study investigated the impact of microfinance banks in banking sector development in Nigeria. The data used in this study were collected from the period of 2006 to 2015. Regression results indicated that micro-credits to mining and quarrying; and real estate and construction had a significant impact on banking sector development in Nigeria. It was recommended that the policy makers should make policies to enhance the microfinance banks in Nigeria because banking sector is significantly contributing in the economic growth.

Key Words: Microfinance banks, Micro-credit, Financial Sector, Small and Medium Scale Enterprises

INTRODUCTION

It is confirmed in previous studies that a significant and strong link exist between the banking sector and the overall financial sector. It is clear those nations who have good banking sector have a tendency to develop its economic growth more quickly. Likewise in every country, banking sectors have been monitored by regulated authorities. These sectors have a twofold impact first they play fundamental role in the economy through development activities second they give resources to general public and other development organization for strengthen through lending of funds and non-fund base advances, but at the same time this sector also face incapacity due to non- performing loans and to failed in recovery of given advances. However, the availability of micro credit remains an issue requiring urgent attention (Pallavi *et al.,* 2006; Iheduru, 2002).
According to Hartarska and Nadolnyak (2008) microfinance banks plays an important role in the financial sector. 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. 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.

In order to enhance the flow of financial services to micro, small and medium enterprises in the country, the FederalGovernment of Nigeria (FGN) launched the new Microfinance Policy, Regulatory and Supervisory Framework (MPRSF) in December, 2005. The MPRSF aimed among other things to bring the existing informal institutions under supervisory purview of the Central Bank of Nigeria (CBN). By doing this, monetary stability in the country is enhanced and financial infrastructure of the country is expanded to meet the financial requirements of the Micro, Small and Medium Enterprises (MSMEs) in the country (CBN, 2009). The policy is also meant to address the problem of lack of access to credit by small business operators. But since the launch of the MPRSF in 2005, has the access of MSMEs to credit improved? Can we say that more MSMEs in Nigeria access micro-credit on more easy terms than before the formal introduction of microfinance into the Nigeria financial market.

The purpose of study is to determine the efficiency of micro finance banks in accelerating the pace of the banking sector in Nigeria. The rest of the paper is organized as follows. Section 2 reviews the empirical literature on the relationship of microfinance banks and the entire banking sector. Section 3 discusses the empirical strategy for examining the relationship. Section 4 shows the model's estimation results. Final section concludes the study, provides some policy implications and set directions for further research.

REVIEW OF RELATED LITERATURE

CONCEPTUAL FRAMEWORK

Microfinance is defined as the provision of thrift, credit and other non-financial services and product in very small amount to the poor to enhance them raise their income level and improve their standard of living (Eluhaive, 2005). It is the provision of very small loans that are repaid with short period of time and is essentially used by poor individual and household who have few assets that can be used as collateral. A Microfinance bank therefore, may be construed as a company licensed to carry on the business of providing microfinance services such as saving, loans, insurance, money transfer service and other financial service that are needed by the economically poor, micro-, small- and medium enterprises (CBN, 2009).

To confront the problem inherent in credit availability, which is in this research study a socio-economic analysis, there have been large-scale innovations in the provision of financial services over the past decades. Generally, these new system have been called micro-credit provision of small-scale loan to the poor and more recently microfinance provision of a range of the poor's financial service requirement including credit, savings, insurance, and remittance management. The majority of micro financial interventions have been targeted towards micro enterprise and economic development (Igbekele and Adigbiye, 2003).

THEORETICAL LITERATURE

The underlying theory of microfinance bank is that, by making financial services available to a previously excluded section of society, microfinance banks is aimed at providing the poor clients with capital for investments, extra liquidity to allow them to take advantage of economic opportunities as they arise, and the opportunity to accumulate assets and gain access to savings to help protect against shocks in times of need (Akanji, 2001). At the same time, for these microfinance services to be available over the long run, the microfinance banks must be viable and sustainable in the long term. This, in turn, may necessitate influencing that in the overall. It is obvious that a new competitive poverty reduction strategy for any country or region is to facilitate survival, (Njiforiti *et. al.,* 2008) and sustainable economic development.

LOANABLE FUND THEORY OF INTEREST:

The Loan able fund theory explains the determination of interest rate in terms of demand and supply of loan able fund by the microfinance operators (Jhingan, 2006). According to this theory, the rate of interest is the price of credit which determined by the demand and supply for the loanable funds.

The users for loanable funds, (microfinance) are micro entrepreneur, framers, tenants and landless poor. They borrow these funds for the purchase of capital goods, starting new business and input tools. Such borrowing is interest elastic and depends mostly on the expected rate of profit as compared with the rate of interest. The supply loanable funds comes from saving, private and individual savings are the main source of savings.

Input-output theory

This theory points out that finance need is assumed to equal the amount of other input used from other sector. These include social welfare programs, basis education, basic amenities and transportation. It also point that developing economies do not have a large financial market and the amount of informal finance that reaches for poor is small. Access to institutional microfinance by the poor is generally limited. Self-finance predominate the Poor's balance sheet in the market economies. Thus, availability of funds in an economy is a sine-qua-non to the overcoming of the constraints. Klaus (2010) has identified finance as an indispensable tool in development. A poorly developed finance system is an obstacle to the development of wealth, enhancement of socio-economic welfare and promotion of human dignity (Iniodu and Ukpak, 1996).

It is obvious that no production, no matter how simple the technology, can take place without the use of capital (finance). The provision of financial support through credit and saving for the acquisition of capital goods is crucial for effective economic management, the aims of which are to increase prosperity, equity and sustainability. Economic management goals are consistent with the primary

objectives of the provision of micro finance, which focuses on the improvement of the living condition of the poor in Kaduna State. All these are based on the assumption that additional money, either as loan or saving will result in the overall liquidity available to the households' production, consumption and/ or investment activities as enunciated in the saving-investment or foreign exchange gap models, which are normally used to justify borrowing for economic development.

EMPIRICAL REVIEW

Microfinance is important in the lives of the rural poor in a developing economy. Faced with a weak social security system to fall back upon, this group of landless or near-land- less rural population is forced to depend upon credit for its livelihood. It was this understanding that led various developing countries to make credit an integral part of their economic development programmes (Pallavi *et al.,* 2006).

In a world where almost half the population lives in poverty, microfinance is one of the better tools for poverty alleviation, economic growth and development in emerging economies. These loans offer the same benefits to major world economies that face growth problems. It is very well realized that these loans can help lower-income groups setup and grow the small businesses, which generate income and employment that helps their communities and their economies (Chaitanya, 2011).

Mutual associations and thrift societies that have dealt with financial institutions have been huge failures. In spite of this negative evaluation, the idea persists that poor people given access to capital and guided properly are in a position to implement and manage income generating business enterprises. In other words, poor people too, have the capacity to run economic activities just like the rest of society given a congenial environment. The second assumption is that once the financial systems are established, the poor people "were able to use it (the financial tools) for productive purposes and progressively incorporate themselves into the financial milieu, repaying the loans, and accumulating savings" (Iheduru, 2002).

On balance, however, there is evidence that microfinance, does have a positive economic impact on economic development in terms of income growth and reduced vulnerability, although the effects are often small (Davies and Quinlivan, 2006), and all client do not benefit equally. Further, based on the analysis of panel data spanning, report that microfinance "raises per capita household consumption, increasing the probability that beneficiary of microfinance loan would escape poverty (Hulme and Mosley, 2006).

Many microfinance banks have tended to focus foremost on their own financial survival, and have generally been reluctant to invest substantially in poverty evaluations (World Bank, 2007). Poverty is indeed increasing in Nigeria based on the poverty assessment study commissioned and sponsored by the World Bank in 1995. It further indicated in the introduction that the World Bank and the IMF group are focusing on economic development as a prerequisite for debt relief (Akanji, 2001).

Mohammed (2011) Used Standard Subsidy Dependence Index (SDI) model to access the Sustainability of Microfinance Banks in Rural Poverty Alleviation in Nigeria. The research stated that the result in the study area were not significant for good performance requisite for sustainable rural poverty alleviation. This is as a result of the microfinance banks inability to pay the market return on their equity.

Hamzat, (2009) Analyzed the effect of Mission Drift on Credit Risk in MFIs using panel data, the researcher observed that the frequency of failure and collapse of MFIs in Nigeria could be a huge potential source of credit risk thus recommended that MFIs require clear focus, strong discipline and appropriate measurements.

Sergio *et.al,* (2000) constructed a theoretical framework that describes the social worth of a microfinance organization in terms of the depth, worth to users, cost to users, breadth, length, and scope of its output. They analyze evidence of depth of outreach for five microfinance organizations in Bolivia. Most of the poor households reached by the microfinance organizations were near the poverty line they were the richest of the poor. They observed that group lenders had more depth of outreach than individual lenders. The urban poorest were more likely to be borrowers, but rural borrowers were more likely to be among the poorest.

Zahra, (2008) provided an exploratory review of the impact that microfinance programs have on the rural developing world. He demonstrated the underlying assumption of most researchers that western definitions of 'empowerment' should be used to determine the progress of development policies. He stated that western understanding of empowerment is also utilized to evaluate programs and assess their positive impact. Microfinance programs undoubtedly have the potential to decrease, or even eliminate, poverty in the developing world, but microfinance theory is being diluted by interference from international, neoliberal bodies.

METHODOLOGY

The *ex-post facto* research design was adopted to enable the researchers make use of secondary data to estimate the cause-effect relationship of micro-finance banks and banking sector development in Nigeria. The dataset used for the analysis were sourced from the Central Bank of Nigeria Statistical Bulletin 2015 edition. The secondary dataset were observed over the period, 2006 to 2015.

As earlier noted, the primary objective thrust of this work is to assess the performance of microfinance banks in banking sector development in Nigeria. As such, a multiple regression model was employed to achieve this objective. These became necessary in order to adequately account for the total effect of the determinants of aggregate consumption expenditure in Nigeria.

The model used for the study is specified below:

$$BSD = \beta_0 + \beta_1 AGRIC + \beta_2 MNQR + \beta_3 RECT + \beta_4 TRCM + \varepsilon \quad . \quad . \quad . \quad (1)$$

Where,

BSD = Banking sector development (proxid by banking sector credit/GDP ratio)

AGRIC = Microfinance banks' loan for agriculture and forestry

MNQR = Microfinance banks' loan for mining and quarrying

RECT = Microfinance banks' loan for real estate and construction

TRCM = Microfinance banks' loan for transport and commerce

β_0 = Constant

$\beta_1, \beta_2 . . \beta_4$ = Population parameters

ε = Estimated error term

Results and Discussions

Descriptive statistics

The descriptive statistics of the variables were also conducted. Table 4.1 below provides a full descriptive statistics of the variables used for the research work.

Table 1: Descriptive statistics

	BSD	AGRIC	MNQR	RECT	TRCM
Mean	11031.30	1048.234	1753.850	97.91688	98.66813
Median	11301.92	449.9350	999.2500	90.62000	99.20500
Maximum	15952.22	3815.600	4776.300	155.7500	144.5900
Minimum	4840.970	134.8200	234.1000	58.25000	61.96000
Std. Dev.	3455.573	1189.415	1504.613	30.30495	18.76441
Jarque-Bera	0.827897	4.001620	1.745185	1.809840	1.039172
Probability	0.661035	0.135226	0.417867	0.404574	0.594767
Observations	16	16	16	16	16

Source: Author's Eviews computations (2017)

The table shows the mean, median, maximum and minimum values, and standard deviation of the variables. The mean of the variables shows their average values from 2006 to 2015. The standard deviation shows that there is some dispersion in all the variables. The Jarque-Bera statistic shows that all the variables used for the analysis are normally distributed. Lastly, maximum and minimum values showed the smallest and largest values of the variables over the period of 2006 to 2015.

Ordinary least squares (OLS) regression results

The ordinary least squares regression results was presented in table 2 below.

Table 2: Ordinary Least Squares (OLS) regression results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG(AGRIC)	0.111691	0.064640	1.727896	0.1119
LOG(MNQR)	0.257655	0.069419	3.711584	0.0034
LOG(RECT)	0.364401	0.093779	3.885726	0.0025
LOG(TRCM)	-0.254829	0.141376	-1.802489	0.0989
C	6.237183	0.806597	7.732715	0.0000
R-squared	0.946411			
Adjusted R-squared	0.926925			
F-statistic	48.56692			
Prob(F-statistic)	0.000001			

Source: Author's Eviews computations (2017)

Table 2 shows the regression results explaining the impact of microfinance banks on banking sector development in Nigeria (2006-2015). The goodness of fit of the model as indicated by adjusted R-squared shows a good fit of the model. An adjusted R-Squared value of 0.926925 indicates that the model fits the data well, the total variation in the observed behaviour of banking sector development (proxied by banking sector credit to GDP ratio) was jointly explained by variations in microfinance banks credit to 92.6925 %. The remaining 7.3075 % was due to the stochastic error term. The F-statistic- a measure of the overall significance of the regression, shows that the overall regression estimate was significant at the 1 percent level.

From the results, microfinance banks' loans to agricultural activities was positive such that 1% change in agricultural credit accounted for approximately 11% change in banking sector development in Nigeria. However, the p-value of the coefficient suggests that microfinance credit for agricultural purposes was not significant in influencing banking sector development in Nigeria. A similar result was found from the coefficient of TRCM which was negative and insignificant at 5% level.

Going through the results, it was found that microfinance banks credit to manufacturing and quarrying had a positive effect on banking sector development in Nigeria. From the results, a percentage change in credit to minning and quarrying caused approximately 25.7% change in banking sector development. Also, the p-value of the coefficient reveals that total credit extended for manufacturing and quarrying was significant in influencing the changes in banking sector development. Similarly, the coefficient of RECT shows that microfinance banks credit for real estate and construction caused approximately 36% increase in banking sector development. Also, it can be seen that the coefficient was significant at 1% level.

CONCLUSION AND RECOMMENDATIONS

CONCLUSION

This study investigates the contributions of microfinance banks to the development of the banking sector in Nigeria. The data used in this study were collected from the period of 2006 to 2015. The regression results indicate that various microfinance banks credit accounted for significant changes in the Nigerian banking sector.

Based on the findings, the following recommendations were made:

1. Policy makers should make policies to enhance the banking sector in Nigeria because banking sector is significantly contributing in the economic growth.
2. A review of the existing microfinance regulatory policy and framework, using recognized economic development/ poverty assessment tools, these would aid the determination of the current levels of clients presently served.

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AN EMPIRICAL STUDY OF THE IMPACT OF E-AUDIT IMPLEMENTATION ON AUDITOR'S PERFORMANCE