MICROFINANCE BANK ACTIVITIES AND ECONOMIC GROWTH IN NIGERIA

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BEING A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF BANKING AND FINANCE, FACULTY OF MANAGEMENT SCIENCES, UNIVERSITY OF BENIN, BENIN CITY, IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCES (B.Sc) DEGREE IN BANKING AND FINANCE

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DECLARATION

I, **Osazee Johnson OHIENGBOMWAN** do hereby declare that this project is entirely my work and composition. The work embodied in this project has not been submitted by another candidate for any degree and is not currently being submitted for any other degree. All references made to the works of other persons have been duly acknowledged.

Osazee Johnson OHIENGBOMWAN	**Date**

CERTIFICATION

We, the undersigned certify that this research work was submitted by **Osazee Johnson OHIENGBOMWAN** and it is hereby approved for the partial fulfillment of the requirement for the award of Bachelor of Science (B.Sc) degree in Banking and Finance, University of Benin, Benin City.

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(Head of Department)

Date:_____

DEDICATION

I dedicate this project to God Almighty, who is the giver of knowledge and to my Lovely parents MR. JOHN OHIENGBOMWAN and MRS. JANET OHIENGBOMWAN.

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ABSTRACT

It is impossible to overstate the importance of microfinance banking in the expansion and development of the Nigerian economy, which is why this study uses the multivariate ordinary least square (OLS) approach to regression analysis to examine the impact of microfinance banks on economic growth in Nigeria from 1990 to 2021. The primary microfinance bank activities that significantly and favorably influence economic growth in Nigeria, according to the OLS regression estimates, are microfinance bank loans (MBL), microfinance bank investments (MBI), and microfinance banks' contributions to agricultural (MBCA). However, neither the microfinance banks deposit (MBD) nor the inflation rate (INF) significantly affect Nigeria's economic growth, indicating that they did not spur economic growth in Nigeria throughout the research period. The research makes several recommendations, including encouraging microfinance bank activities, particularly lending to, investing in, and supporting the agricultural sector given its importance to the expansion of the Nigerian economy.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The goal of microfinance is to offer financial services to the underprivileged, who are typically ignored by regular financial institutions. Small and medium-sized businesses (SMEs) and petty traders typically employ microfinance in underdeveloped economies because they lack access to capital (Cole & Akintola, 2021). According to the aforementioned statement, microfinance acknowledges poor and microentrepreneurs who are denied access to financial services because they are unable to furnish tangible assets as security for the loan facility they desire from deposit money institutions (DMBs)According to Central Bank of Nigeria (2005), microfinance banks are established to offer the active poor a variety of affordable, dependable financial services, mobilize savings for intermediation, increase employment opportunities for the active poor in the nation, improve organized, systematic, and focused participation of the poor in the socioeconomic development process, and provide genuine avenues for the admixture (Murad & Idewele, 2017).

The Nigerian government is working hard to ensure that the economy develops favorably, and Nigerian leaders are doing everything they can to ensure that banks are licensed to provide financial services to the teeming population, especially those in rural areas. This

is one of the reasons government licensed microfinance banks to help the low-income people and businesses who have long been denied access to credit (Osamwonyi & Obayagbona, 2012).

Microfinance banking is currently in a very strategic position in Nigeria and around the world due to the improvement of the socioeconomic well-being of the poor, who are typically self-employed low income entrepreneurs like traders, street vendors, small farmers, hairdressers, barbers, GSM commercial operators, artisans, and a host of others. Microfinance, taken literally, refers to building a financial system that effectively and efficiently satisfies the needs of the impoverished. It is an effective tool in the global war against poverty. This is accurate because having access to financial services enables those with modest incomes to raise their income, build wealth, and safeguard themselves against unexpected shocks (Abraham & Balogun, 2012; Ahmeti, 2014). A microfinance bank, according to Central Bank of Nigeria (2013), provides a variety of financial services, such as savings, loans, payment services, money transfers, and insurance, to underprivileged and low-income people, households, and microbusinesses.

Barr (2005) asserts that microfinance may be advantageous for four reasons: First, microfinance programs that are able to support themselves financially can dramatically lower poverty and expand markets, both of which advance financial development. Second, microfinance may be a useful tactic to consider in countries with weak governance when other development projects face significant challenges. Third,

microfinance can assist in the development of the financial markets in developing countries, even though it has more limited but still beneficial roles in reducing poverty in both financially undeveloped and financially developed countries. Fourth, microfinance can assist by lowering opposition to and raising support for domestic financial improvements. In Nigeria, entrepreneurs' ability to launch new businesses is hampered by a lack of access to financial institutions. Additionally, many times the sources and effects of entrepreneurial activity are not financially or environmentally sustainable. Microfinance institutions help the underprivileged and offer an important instrument to support economic growth (Noruwa & Ezike, 2012).

Around 70% (98 million) of Nigeria's population, 180 million in total, live below the poverty line, which is set at US $1.25 per day, according to the United Nations (2020). The GNI per capita is approximately $1140 USD, and the average age of death is 48. The overall adult population (18 years and older) is 84.7 million, with 51% men and 49% women living in rural areas. In light of the rapidly expanding population, rising unemployment rate, and unrest among the youth, Osamwonyi and Obayagbona (2012) argue that the importance of microfinance banking in the growth and development of the Nigerian economy cannot be understated. The government is having a difficult time supplying the population with enough jobs. Giving people the essential microfinance loans and services that will enable them to launch or manage business ventures of their choice is one surefire strategy to tackle unemployment. In this study, we'll look at how microfinance banks have affected Nigeria's economic expansion.

1.2 Statement of the Research Problem

The building of a strong national financial system is a key goal and a motivator of the more general goal of national economic development. Today's globalized globe has significant challenges in reducing poverty and growing the economies of rising nations. Lack of proper credit supply has over time grown to be a substantial production constraint in many developing countries where the majority of the population lacks access to financial services from formal institutions, whether for credit or savings. The savings gap, which essentially shows how difficult it is for these nations to finance the investments required for growth from domestic saving, is a severe issue that many developing countries face (Cole & Akintola, 2021). In terms of number of institutions operating each year, microfinance organizations have grown significantly. Their number increased by 7.9% to 907 in 2019, demonstrating their expanding reach to those in the lower pyramid of society through their intermediary activities, which themselves increased by 594.9% from N27.79 billion to N192.99 billion in 2016. (CBN Annual Reports, various years).

Studies that determine how much microfinance has influenced inclusive growth and development, including its benefits on poverty alleviation, are still hotly contested, especially in advanced and emerging economies (Mahmoud, 2005; Abiola, 2011; Meisami, 2013; Alimukhamedova, 2013; Donou-Adonsou & Sylwester, 2015; Raihan, Osmani & Khalily, 2015; Sharma & Puri, 2013). To put it another way, it is yet unknown

how much the microfinance-GDP nexus applies to Nigeria. Although research has been done in Nigeria to demonstrate the link between microfinance banking activities and economic growth (Ademola & Arogundede, 2014; Murad & Idewele, 2017; Cole & Akintola, 2021), the results of these studies cannot be trusted because they were conducted with a variety of objectives, leading to a variety of results and conclusions. Additionally, because there are so few of these studies, there is a research gap that necessitates additional research on the topic. As a result, the question is whether microfinance organizations actually promote economic expansion. What impact do deposits, investments, and microfinance loans have on Nigeria's economic expansion?.

As a result of the aforementioned, this study will try to find out how much the MFBs' performance and intermediary function have helped Nigeria's economy grow. Investigating the nature of these connections might aid in developing policy and strategy that could boost Nigeria's economy.

1.3 Research Questions

The following research queries were addressed in the study:

i. How much of an impact does microfinance banking have on Nigeria's economic expansion?
ii. What connection exists between Nigeria's economic growth and investment by microfinance banks?

iii. What connection exists between microfinance deposits and Nigeria's economic expansion?

iv. Is there a connection between Nigeria's economic growth and contributions made to agricultural productivity by microfinance banks?

1.4 Objectives of the Study

Determining the effect of microfinance banks on Nigeria's economic growth is the study's main goal. Other sub-objectives, however, are to:

i. Determine the relationship between micro finance bank loans and economic growth in Nigeria.

ii. Determine the relationship between micro finance bank investment and economic growth in Nigeria.

iii. Analyze the connection between microfinance bank deposits and Nigeria's economic expansion.

iv. Analyze the connection between Nigeria's economic growth and microfinance bank contributions to agricultural productivity.

1.5 Research Hypotheses

In line with the objectives of the study, the following research hypothesis were formulated;

H_{01}: There is no significant relationship between micro finance bank loans and economic growth in Nigeria;

H_{02}: There is no significant relationship between micro finance bank investment and economic growth in Nigeria;

H_{03}: Microfinance deposit has no significant impact on economic growth in Nigeria;

H_{04}: There is no significant relationship between micro finance bank contributions to agricultural production and economic growth in Nigeria.

1.6 Significance of the Study

The outcome of this study will be of relevance in the following ways:

The findings of this study will be extremely helpful to many parties involved in the Nigerian economy's microfinance banking sector. The study will specifically open the eyes of small and medium sized businesses and petty traders to the impact of the variables addressed by the study on economic growth.

Second, by implementing proper policies and methods that take into account the risks specific to the microfinance bank in the Nigerian banking industry, it would also help managers of microfinance banks manage their investments more efficiently.

Additionally, it will broaden the understanding of management science academics and students on the significance of microfinance banks to economic growth and pique their

interest in this field. The results of this study may be verified or replicated using alternative methodology or populations as a result of such interest in the subject.

1.7 Scope of the Study

This study focuses on the examination of the connection between microfinance institutions and Nigerian economic growth. It spans a time period of 25 years (1995 to 2020). The reason for choosing this time period is because it was at this time that the Federal Government of Nigeria, along with the apex bank (The Central Bank of Nigeria), launched the majority of the reforms in the microfinance institutions.

1.8 Limitation of the Study

The main problem with this study is the dependability of the data. Since the study mainly relied on secondary data, these errors in the variable values caused by the sources of data used posed a significant barrier to the study's conclusions. However, this restriction was reduced by making every effort to stick with data from the Central Bank of Nigeria statistical bulletin, since it is a more reliable source both domestically and outside.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Conceptual review, theoretical review, and empirical review are the three divisions of the literature review. The conceptual review is organized into the following components, some of which include existing knowledge on microfinance and economic growth: Economic growth as a notion, microfinance as a concept, the history of microcredit and microfinance, an overview of microfinance in Nigeria, the conceptual and practical distinctions between microcredit and microfinance, and characteristics of microfinance. The theoretical review examines theories related to microfinance banking and economic growth. The empirical review covers prior studies and their findings on the effect of microfinance banking on economic growth.

2.2 Conceptual Review

2.2.1 The Concept of Economic Growth

The increase in a nation's output (goods and services) from one period to the next is referred to as economic growth. Economic growth, which is frequently measured over a given time period, is the ongoing increase in the capacity to meet demand for goods and services as a result of expanding production and improving productivity (innovations in products and processes) (Olowofeso, Adeleke & Udoji, 2015). A country's economy is

said to be growing when it consistently expands, as measured by macroeconomic indicators, particularly GDP per capita, which benefits the social-economic sector (Smith, 2014). It is also defined as an increase in the country's output, which eventually leads to the addition of national income. It entails an increase in national output, which reduces unemployment and, as a result, improves the living conditions of a country's citizens (Ufoeze, 2018). Furthermore, economic growth assures equal distribution of national resources, hence narrowing the wealth distribution gap (Roihjert & hlander, 2016).

Economic growth, according to Dandana and Nwele (2011), is the rise in the market value of an economy's goods and services over time, adjusted for inflation. It is often quantified as the rate of growth of real GDP in percentage terms (GDP). The increase in the GDP to population ratio is more significant (GDP per capital which is also called per capital income). An increase in growth brought on by a more effective use of inputs is known as intensive growth (such as physical capital, population, or territory).

GDP growth that is brought on by an increase in the quantity of inputs available for use is referred to as extensive growth. Real GDP will be used as the primary indicator of economic growth in this study. The Nigerian economy's national productivity and living standards, as well as, to varied degrees, economic growth and development, are negatively impacted by unemployment and high poverty.

Economic growth guarantees that resources are distributed evenly throughout the economy (Xu & Chen, 2012). Economic growth is used to forecast the economy's future

prospects and to assess the efficiency of various government programs aimed at boosting economic growth (Sax, 2014). A country's most recent production is compared to prior ones to determine whether the country is progressing (Ufoeze, 2018).

The GDP of a country is frequently used to measure its economic growth since it measures the total change in the country's productivity and is one of the primary variables examined by investors, particularly foreign investors. GDP refers to the total value of all goods and services produced in a certain economy each year (Sax, 2014). Furthermore, GDP is influenced by market fundamentals, and changes in GDP suggest a change in actual economic growth, which may have an immediate impact on the home property market. Furthermore, economic certainty brought about by an increase in real GDP results in high company confidence (Mauck & Price, 2017).To measure economic growth, the gross domestic product, which can be real or nominal, is frequently utilized. While the real GDP is the monetary value of goods and services after accounting for inflation, the nominal GDP is the monetary value of goods and services produced during a specific time period. There are many different definitions of economic growth and ways to quantify it, according to Olowofeso, Adeleke, and Udoji (2015), but the main one is growth in the economy's long-run productive capacity, which is frequently measured by real GDP growth (GDP).

The macroeconomic fundamentals that are taken into consideration while formulating and enacting macroeconomic policy include changes in the index of industrial production,

inflation, the exchange rate, the utilization of a nation's manufacturing capacity, and others. Economic growth is used to evaluate the general health or well-being of a nation at any given time. When economic activity slows as a result of exogenous shocks, such the recession of a significant foreign partner, businesses' and individuals' income decreases, making it harder for them to meet their obligations to credit institutions (Moinescu & Cordilasu, 2011).

2.2.2 The Concept of Microfinance

Microfinance is a type of financial development with the primary goal of alleviating poverty. Microcredit, which involves lending modest sums to impoverished or near-poor households, rose to popularity in the 1980s as a result of innovative programs such as Mohammed Yunus' Gramen Bank and passionate support from government figures such as President Clinton (Barr, 2005). The United Nations selected 2005 as the International Year of Microcredit.

Microfinance is the process of creating a financial system that effectively and efficiently caters to the needs of the underprivileged and is a powerful tool for eradicating poverty worldwide (Osamwonyi & Obayagbona, 2012). The reason for this is that when the underprivileged have access to financial services, they may make more money, build up their assets, and safeguard themselves from shocks from the outside world when they happen (NMDS, 2012). According to the Asian Development Bank (2011) and the Central Bank of Nigeria (2013), microfinancing is the provision of a wide range of

financial services with a focus on helping the underprivileged and low-income people, families, and small companies. A microfinance bank, according to Rodman (2012), offers financial services to low-income individuals who weren't previously served by traditional commercial banks. To put it another way, it is the provision of microcredit to the underprivileged so that they may take part in worthwhile enterprises and prosper as a result. However, legal and informal financial organizations that offer low-income people microfinance and are governed alongside the banking sector are what (Seibel, 2001) describes it as in a broader meaning. According to MIX (2010), microfinance entails offering microcredit facilities, together with savings programs and other related services, to those in need. It continued by stating that the term "micro" refers to the small sum of money involved, making it specific to the poor who depend on them to operate their small companies and provide for their families.

The Central Bank of Nigeria established a microfinance policy regulatory and supervisory framework for Nigerians with the goal of enhancing access to means of production, most notably money, for the underprivileged and weak. The apex bank aims to re-brand and re-capitalize Litter to Community Banks, which will fall under two types of microfinance banks, in order to accomplish the goals of this phase of its banking reform strategy. They are microfinance banks (MFBs) having a minimum paid-up capital base and shareholder funds of N20 million and N1 billion, respectively, and are authorized to operate as a unit under local government. By January 1st, 2008, more than

60% of community banks had switched to microfinance institutions, and more microfinance institutions had received operating licenses (CBN, 2008).

Microfinance banks help to empower the underprivileged and are a key element in the economic growth process. Access to credit is critical to the global expansion of SMEs. Financial inclusion has been identified as a critical tool for the development of SMEs in Nigeria. The inability of Nigerian entrepreneurs to engage in new business ventures is hampered by a lack of access to financial institution services, stifling economic growth (Ashamu, 2014). He went on to say that the promotion of microenterprises in developing nations is justifiable due to their ability to stimulate economic development.

Without a well-targeted policy to end poverty by empowering people and enhancing their access to productive resources, notably finance, robust economic growth cannot be realized (Ezike & Abu, 2012).

The entire financial development strategy of a developing country should include microfinance as a key element. By demarginalizing microfinance initiatives for the poor, international financial institutions, donor nations, and developing nations may be able to advance the Millennium Development Goals more swiftly. Because rural areas host the bulk of society's disadvantaged, especially small and medium-sized companies, the federal and state governments have acknowledged that financial empowerment of rural areas is essential for long-term growth and development.

The Central Bank of Nigeria (2005) states that the establishment of microfinance banks is intended to accomplish the following goals: provide the active poor with a variety of affordable and dependable financial services, mobilize savings for intermediation, increase employment opportunities for the active poor in the nation, and improve focused, organized, and systematic participation of the poor in socioeconomic development and resource allocation.

2.2.2.1 Microcredit and Microfinance History

Ehigiamusoe (2008) claims that the seeming failure of conventional development theories and strategies to achieve real development, i.e. poverty reduction, was the catalyst for the establishment of microfinance practice. The growth-led development viewpoint, which became popular in the 1950s -1960s and has recently made a comeback, has consistently delivered impressive numbers with a depressing effect on people's lives. Both growth rates and the number of individuals living in poverty were rising. Microfinance strives to give low-income individuals capital for businesses that generate income as a result.

The idea of microcredit appears to be outdated and unsupported. Jonathan Swift, according to Abiola and Salami (2011), created the Irish loan fund system in the 18th century, which provided small loans to struggling farmers without collateral. At its peak, it provided yearly service to every household in Ireland. Friedrich Wilhelm Raiffeisen later established the concept of a financial cooperative in Germany in the middle of the 19th century, and cooperatives quickly expanded throughout Europe and eventually the

rest of the world. State-owned development financial institutions—often referred to as farmer's cooperatives—started offering loans to clients at interest rates below those of the market in the middle of the 1950s.

Microcredit has been rendered obsolete, claim Yahaya et al. (2011). They claim that in the 1800s, Friedrich Wilhelm Raiffeisen and his supporters established credit unions to help rural residents lessen their dependency on moneylenders and improve their well-being. Since 1870, a sizable portion of the Rhine Province and other German states have seen the unions rapidly grow. The cooperative movement quickly extended to additional nations in North America and Europe before receiving aid from wealthier benefactors and more developed nations. The Bank Perkreditan Rakyat (BPR), commonly known as the Indonesian Peoples' Credit Banks, first opened for business in 1895. With around 9000 units, the BPR has grown to become the largest microfinance program in Indonesia.

Throughout the early 1900s, many variations of these models started to appear in rural Latin America. Although the modernization of the agricultural sector was frequently stated as the goal of such rural finance interventions, they typically had two more focused goals: increasing commercialization in the rural sector through the mobilization of "idle" savings and increasing investment through credit, and reducing feudal relationships enforced through indebtedness. As had been the case in Europe, these new poor-banking institutions were typically owned by governmental organizations or commercial banks

rather than the poor themselves. Over time, these institutions grew inefficient and occasionally abusive.

According to Bateman (2011), the history and development of microfinance are fascinating and inspiring. He talks about how ACCION, a Latin American organization that fights poverty, wanted to better understand how it could help underprivileged families and communities in the region in the early 1970s. The team saw that although there was a lot of economic activity, many were struggling to survive. Access to capital was suggested as a solution to the question of "what would it take to increase the success of economic activity," according to Rob Scarlett, a member of the ACCION teams. People were forced to accept the strict conditions of loan sharks because they lacked access to banking. These expressions, which are violent and exploitative, contribute to social unrest.

In 1973, ACCION started lending money to a group of people in Recife, Brazil, based on these concepts. The business has given out 885 loans in less than four years, assisting in the creation of 1386 new jobs. The organization ACCION, which is credited with creating the term "Microenterprise," had discovered a way to generate fresh riches for the working poor of Latin America (Bateman, 2011).

The predecessors of microfinance, rural credit and small farmer credit, have histories of spectacular failures of policy, as demonstrated by the Ohio State School, claim Hulme and Moore (2006). It was generally accepted at the time that attempts to offer small loans

to low-income individuals (at the time associated with small farmers) had been a bad policy. It was unable to create effective rural finance groups because it did not offer loans to the poor, added little to increase productivity of agriculture, also it had a high default rate. People in poverty were viewed as "unbankable." Development policy should leave this area of banking to the private, for-profit sector due to the high transaction costs, poor people's inability to meet up loans repayment, and political manipulation of such programs..

According to Bondreaux and Cowen (2008), Yunus began the current microcredit story 30 years ago when he set out to use his theories to improve the lives of the underprivileged in the neighboring village of Jobra. At the time, Yunus was a professor of economics at Chittagong University in southeast Bangladesh. In 1976, he made his first loan of US$27 to 42 villagers, who used it to set up spontaneous companies like producing soap or weaving baskets to sell at the local market.

According to Ehigiamusoe (2008), the foundation of microfinance is the fact that poor remain poor because they do not have access to options that could change their lives, including affordable financial services. In order to considerably improve their living conditions, the poor are believed to be capable of doing so by those who practice microfinance as a method of development.

While community-based savings or "contribution" programs are not recent developments in the majority of communities, modern microfinance, often known as the 'microfinance

revolution,' is the result of purposeful attempts to solve poverty. The current practice came from governments and development organizations wanting to improve living standards and agricultural output. At this time, efforts for national development often linked rural poverty to those areas. It was thought that the reason farmers or residents of rural areas were impoverished was because they lacked access to money. Banks have a history of being reluctant to help small farmers. Small loans were given to farmers through cooperative organisations of farmers. Numerous factors contributed to the extraordinarily low payback rates. This makes sense. The intents and strategies of loan donors were more altruistic.

Ehigiamusoe (2008) claims that non-profit institutions in Nigeria were the ones who first started modern microfinance as a means of eradicating poverty. The Country Women Association of Nigeria (COWAN) was established in Akure by Chief Bisi Ogunleye, and the Nsukka United Self-Help Organization (NUSHO) was headed in the early 1980s by the late Venerable David Ogbonna. The Lift Above Poverty Organization (LAPO) started providing credit-plus programs in the latter half of the 1980s.The Ford Foundation gave these institutions early funding, which is important to note.

According to Yahaya et al. (2011), the idea of microfinance is not brand-new. In addition to "susus" in Ghana, "chitfunds" in India, "tandas" in Mexico, "arisan" in Indonesia, "Ayo" in Nigeria, "cheetu" in Sri Lanka, "toutines" in West Africa, and "pasanaku" in Bolivia, they also mentioned a number of other centuries-old burial societies and savings

clubs that can be found all over the world, since the 1970s. Additionally, there have been established credit and savings institutions for the underprivileged, allowing those who were previously ignored by commercial banks to obtain financial services through cooperatives and development finance companies. Microfinance aims to assist individuals in need who aren't catered to by conventional financial institutions (e.g. commercial banks). The objective is to broaden the selection of financial services. Traditional microfinance organizations have been established over time in various regions of Nigeria to provide loans to both rural and urban populations. Examples of these organizations include rotating savings and credit associations (ROSCAs), self-help groups (SHGs), and "esusu."

In agreement with Enugu Forum (2006), Dahiru and Zubair (2008) assert that microfinance is pervasive throughout the world in regions like Africa, Latin America, and Asia and that it was first established on conventional types of community funding (a cross between finance and development assistance). Beginning in earnest in places like Bolivia and Bangladesh in the early 1980s, the microfinance movement has captured the attention of commercial bankers and multilateral aid organizations over the past 20 years.

When Mohammad Yunus (2004) asserts that the term "microcredit" did not exist until the 1970s, he is in agreement with the aforementioned historical perspective. Among those who work in development, it has become a trendy term. The word now means anything to everyone as a result. No one is astonished anymore if the term "microcredit" is used to

describe consumer, agricultural, rural, cooperative, or money lender loans as well as loans from savings and loan organizations, credit unions, or money lenders. Nobody finds the assertion that microcredit has a history of a thousand or a hundred years to be an interesting historical fact (Muhammad Yunus, 2004).

Previous microcredit initiatives failed because borrowers refused to repay loans they believed to be government handouts (Abiola & Salami, 2011). A paradigm shift in the distribution and concept of microcredit gave birth to the revolution of microfinance as a developmental project.

2.2.2.2 Microfinance Banking in Nigeria: An Overview

Credit was a crucial component of Nigeria's economic and social ties among its many ethnic groups, especially the low-income or impoverished, long before the country's introduction of contemporary microfinance banking. Credit has frequently been used to help the less fortunate and promote economic growth. Governments and foreign aid organizations have tried over the years to provide subsidized loans to small farmers in developing countries, especially Nigeria, where credit is not widely available. Anyanwu (2004) claims that the failure of the decreased loans to reach the underprivileged led to the creation of a new microcredit program that would give them regular access to financial services. Indeed, microfinance in Nigeria has evolved through three fundamental stages or types during the last three decades. Here are some examples:

i. **The Informal Sources:** Among Nigeria's poor and low-income earners, these were the first and most commonly used forms of microfinance. A considerable number of rural residents and low-income earners rely heavily on this sector for financial services because they are unable to furnish the requisite collateral security as a condition for assessing loans from conventional deposit money banks. The term "traditional savings and loans institutions" (also known as Esusu or Osusu depending on local dialect) is occasionally used to describe informal forms of microfinance in Nigeria. Here is a list of the several names it is known by throughout the world, including Nigeria.

ii. **The Semi-Formal Sector:** This sector also includes foreign donor organizations and non-governmental organizations (NGOs). Their goal was community development, which they achieved by giving their members income-generating loans or grants so they could buy farm implements, carry out development projects like drilling boreholes, and give modest loans to their members at a reduced rate. These non-profit organizations (NGOs), which were mostly funded by donors, were originally known as micro-credit institutions and eventually changed their name to microfinance institutions (CBN, 2013).

iii. **Formal Institutions:** The government's conscious, deliberate, and decisive actions in setting up rural banks, cooperatives, people's banks, community banks, and now microfinance banks with the aim of offering all-around microcredits to the

economically active poor who serve as the cornerstone of the nation's economic development actually served as the foundation for the establishment of these institutions in Nigeria. Omeh (2012) asserts that economic growth has taken on substantial importance for both governments and the private sector, leading to enormous expenditures over time. He claims that numerous efforts have been made by successive Nigerian governments to encourage adequate financial inclusion and financial literacy for the underprivileged, including the establishment of the following organizations:

a) The Nigerian Industrial Development Bank (NIDB) in 1964.

b) Nigerian Agricultural Credit Bank 1973-2000.

c) Rural Banking Program 1977-2000.

d) Agricultural Credit Guarantee Scheme, since 1977.

e) People's Bank 1998-2001.

f) Community Bank 1990-2005.

g) Family Economic Empowerment Program 1994-2001

h) National poverty Eradication program, since 2001

i) Small and Medium Equity Investment Scheme, since 2001

j) Micro Policy Framework, since 2005

k) Microfinance Banks since 2005 till date (Omeh, 2012).

Thus, on December 15, 2005, the Central Bank of Nigeria (CBN) legally formed and licensed the contemporary microfinance bank in line with the search for financial sustainability of the present financial system approach to microfinance as applied in other parts of the world.

2.2.2.3 Features of Microfinance

Some distinguishing characteristics differentiate microfinance from other financial services. In acknowledging this fact, Ehigiamusoe (2008) identifies them as follows:

- Substitution of Collateral: A distinguishing feature of conventional microfinance practice is the lack of a requirement for tangible collateral. The provision of collateral is given priority in conventional banking practice as a condition precedent to credit. Pledged tangible assets serve as credit securities. This requirement is predicated on the idea that a real threat of losing pledged property is sufficient incentive to repay a loan. The lender can easily transfer risk to the borrower in this fashion.
- The lack of access to institutional services for the underprivileged and microbusiness owners might be attributed to the collateral requirement. The requirement for collateral is occasionally seen as the catalyst for the development

of contemporary microfinance. The concept of microfinance arises from the realization that the poor and owners of microbusinesses lack ownership over assets that regular banks usually require, such as titled real estate and stocks. Demanding something from someone that they do not have is known as a collateral need.

- As a tool for development, microfinance suggests a philosophy that values people over just collateral (what they have). According to microfinance as a development strategy, the poor can get better off if they have access to affordable financial services, but they stay poor because they are not eligible for institutional credit. The use of pledge collateral is optional because alternative methods, such as peer group guarantees, efficient loan utilization monitoring, and customer-friendly processes, such as speedy approval of larger subsequent loans and ease of access, can generate motivation to meet payback commitments. In most cases, clients are well aware of their credit group, as well as their personalities and capacity for debt absorption. This information is helpful in evaluating participatory loans. The promise of continuing access to affordable services has shown to be a potent inducement for prompt repayment.
- Small units of service - Financial services are typically geared toward microfinance and small business owners. As a result, services are customized to match the absorptive and debt capacity of service users. Microbusinesses can only take in so much money. The clients' capacity determines the amount and

frequency of savings.

- Women are given priority - The majority of microfinance organizations' clientele is made up primarily of women. The disproportionate representation of women in the clientele of the majority of microfinance institutions can be attributed to a number of factors and points of view. Many professionals think that because female clients are more responsible with their credit than male clients, microfinance institutions favor them. It is also said that women are vulnerable to intimidation into keeping repayment agreements. The outstanding loan repayment record of microfinance is usually cited as support. Women's relative higher level of impoverishment is one of the more plausible explanations for why women dominate the microfinance industry. Women and men are treated equally in very few communities in developing nations. In some cases, women are given a lower social status by traditions, conventions, and religion. Some traditions prevent them from inheriting. They do not have any substantial real estate or other assets that may be utilized as collateral for institutional borrowing. In the traditional financial system, women are likewise underrepresented when it comes to credit opportunities. They turn to microfinance firms out of frustration with this kind of exclusion and fear of the frequently high interest rates associated with borrowing money from moneylenders. The type of commercial activity that women conduct is another factor. Women entrepreneurs are more likely to take part in business ventures supported by small loans. Subsistence farming, trading, food vending,

tailoring, simple craft work, and other economic activities mostly performed by women in the informal sector fall under this category.Another argument is that as a woman's earning potential increases, the whole family—including the kids—benefits more than when a man's does.

- Access to Repeat Loans - The hallmark of microfinance is the continual provision of financial services to designated consumers. Consumers often receive larger loans in subsequent rounds. Because new consumers are less capable of taking on debt, small loans are granted earlier in the cycle. It also serves as a way to assess the creditworthiness of more recent clients. Repeated loans make sure that the effect of consuming financial services is maximized. Microbusinesses need to get financial support throughout several cycles in order to develop. By conducting customer surveys and enhancing their offerings, microfinance banks work to keep their clientele. This makes good business sense. Serving older clients is less expensive and requires less supervision because they are less dangerous.
- Client-centricity. Microfinance is more than just micro-banking. In contrast to traditional financial institutions, where customers are identified by account numbers, microfinance banking does not correlate service users with nameless consumers. One of the biggest obstacles to credit for the poor, aside from the requirement for genuine security for loans, is their inability to comprehend the lingo and complexities of formal lending. The provider of financial services must think outside the box to engage the underserved population. Collaboration is

essential in microfinance. The poor consider the relationship to be more important than just loan and deposit collection. The microlender must be interested in their businesses, as well as the welfare and education of their kids. The microfinance banker also needs to be able to speak smoothly with clients who are on a modest income. Customers shouldn't be intimidated by the banker's speech, appearance, or attitude in general. Through orientation and training, the microfinance banker must be equipped to handle the difficulties of becoming a banker for the poor.

- Group Delivery Methodology - Although offering financial services to individuals is becoming more popular, group delivery methodologies continue to rule the microfinance industry. The formation of credit and savings groups is assisted for potential clients. Members of such groups are chosen voluntarily and are well acquainted with one another. For convenience and peer support, groups are frequently formed along the communal nature of corporate activities and the vicinity of residences and establishments. .Borrowers might acquire, use, and repay loans jointly in order to supply services to members in a collaborative manner. On the other hand, individuals acting collectively accept individual accountability for the usage and repayment of their credit facility. Using group approach, operational goals are attained. These objectives include a cost-cutting strategy for whatever cause, as well as the repayment of given credit and the strengthening of borrowers' solidarity.
- Door-to-door service delivery - In contrast to traditional banking, microfinance

service providers visit clients' homes, places of work, and gathering areas to deliver financial services. Instead than waiting for clients in lavishly decorated branch offices, the microfinance banker must be prepared to travel to them. While lavish clothing and exotic furniture may entice well-heeled commercial bank clients, they might be scary or repulsive to poor microfinance bank and institution customers. They are more at ease with the occasionally dirty or oily corporate atmosphere in which they conduct their financial operations.

2.2.2.4 Functional and Conceptual Differences between Microcredit and Microfinance

Microfinance and microcredit are often used interchangeably (Bateman, 2011). This has caused difficulties and misunderstandings in the discussion of development and the formation of policy. The founder of the Grameen Bank, Muhammad Yunus (2004a), claims that the term "microcredit" didn't exist prior to the 1970s. However, among those who work in development, it has recently become a trendy term. The word now means anything to everyone as a result. He thinks there are significant disputes over who should be a part of these programs among policymakers and practitioners of microcredit on the value of small-loan programs in reducing poverty in the Third World (TW).

Microcredit emerged as a result of a paradigm shift in development theory, claim Elahi and Rahman (2006). Western interests in international development increased when postwar third-world nations gained political independence. National and international organizations were set up to provide former colonies with financial and material support

from the West to improve their social and economic conditions (Harcourt, 1997). The program is referred to as the "top-down" approach to development since the third-world governments that received international aid and loans were in charge of how they were spent. Sadly, the majority of these international aid efforts were futile. According to Rehnema (1992) and Waddimba (1993), the failure was caused by the intended recipients of development programs' lack of involvement in their conception, formulation, and implementation.

The "top-down" approach was eventually superseded by the "bottom-up" approach. Development experts view participation and participatory ways of communication as crucial components. After Robert MacNamara (1973) cautioned his audience that no program would benefit small farmers if it was developed by people who were uninformed of their concerns and implemented by persons who had no concern for their future, the World Bank welcomed the idea. The final strategy for bilateral and multilateral agency policy was participation and participatory approaches (Stigliz, 1999; Wolfensohn, 1999).

Due to the changing regulatory environment, non-governmental organizations (NGOs) can now participate more actively in the distribution of foreign funds intended to fight poverty. NGOs stand out due to their non-profit status, independence from the government, and commitment to advancing humanitarian, social, or cultural causes (World Bank, 1996). They perform a number of different tasks for the government, such as helping it reach its development goals through campaigns for public awareness,

education, and communication, and organizing citizens to express their aspirations, concerns, and alternative ideas for decision-makers to take into account (Clark, 1999).

Typically non-profit, microcredit organizations are not driven by the goal to turn a profit. Microcredit NGOs are different from philanthropic organizations in that they believe that poverty is caused by societal processes that prevent the poor from having legitimate access to social resources, including credit, as opposed to assuming that poverty is caused by personal failings on the part of the poor. In fact, some advocates of microcredit see access to credit as a kind of human right, hoping to spark a social and economic revolution by uniting the underprivileged under the banner of organizations akin to Grameen (Elahi & Rahman, 2006).

The extraordinary success of microcredit programs in helping underprivileged women in rural areas, along with extremely high loan recovery rates, immediately caught the attention of the world's donors. For instance, the 1997 Microcredit Summit had 2900 participants from 137 different countries, representing 1500 different organizations worldwide (Microcredit Summit, 1997 in Elahi & Rahman, 2006). The word "microfinance" was first used in the late 1990s as a result of increased academic interest in the topic due to its popularity (Elahi & Rahman, 2006).

The type of service that each program provides is the main functional difference between micro-credit and microfinance programs. The primary service offered by microcredit organizations like Grameen is loan distribution and recovery, which is connected to

group formation and required savings. On the other hand, microfinance programs provide a variety of financial services, including microcredit. This burgeoning financial sector's goal is to satisfy the credit needs of the underprivileged who lack access to traditional sources of credit, and microcredit is an essential but insufficient part of that goal (Elahi & Rahman, 2006).

Perhaps because of this, credit theory and policy refer to the microfinance movement as the "second revolution" (Woller, 2002). The first revolution was focused on eliminating institutional barriers to providing savings and credit services to the underprivileged and on microcredit. Some of the obstacles include information asymmetry, a lack of collateral, high costs, significant risks, and systematic market bias.

Elahi and Rahman (2006) list the following as the main approaches used in microcredit programs:

- a uniform and constrained range of goods and services
- group borrowing
- social security
- compelled savings
- a modest initial loan amount
- Loan amount is based on savings

- Typical repayment and payment plans for loans
- Frequent repayments.

The aforementioned trends are referred to as "inward-looking" by the proponents of the second revolution, specifically microfinance. In contrast to its customers or clients, they assert that their main objective is to address the demands of their organization and donors.

In particular, microcredit programs offer "product-centered" services in that they choose clients based on the needs of their product (small loans), rather than producing goods to satisfy their clients' needs.

Because of this, supporters of the second revolution push for a change from a customer-centered to a product-centered strategy. This new approach comprises developing and providing financial services that consumers desire. Evidence indicates a decline in the product-centered strategy (Woller, 2002).

From a functional perspective, the mid-1970s microcredit revolution has evolved into the microfinance revolution. This may help to explain why the two terms are frequently used synonymously and/or why the two categories of programs are researched together (Morduck, 1999; Ledgerwood, 1999). Commentators who interchangeably employ these expressions claim that there are just semantic differences between them as opposed to substantive ones. However, Elahi and Rahman (2006) contend that when taking into account the supply side of microfinance programs, this approach is unworkable. Every

time the phrase "microcredit" is used, it should be clear which kind (or group of types) is being discussed, according to Yunus (2004a). To prevent never-ending uncertainty in the discussion, Yunus (2004a) forbids the use of the phrases microcredit or microfinance without identifying its category.

But there are two key conceptual differences between microfinance and microcredit. The first is focused on the desire for financial gain. Microcredit programs are managed by non-profit organizations (NGOs), who by definition do not have the goal of turning a profit. On the other hand, microfinance is a for-profit business enterprise. The second significant conceptual distinction has to do with how the operations are paid for. While for-profit microfinance organizations must eventually become self-sufficient, nonprofit microcredit programs depend on outside funding. For instance, money lenders operate using their own cash rather than requesting investment funding from local or foreign donor organizations. They are unable to receive assistance from national or international development organizations to pursue their lending operations (Elahi & Rahman, 2006).

Services for microcredit have evolved from being a form of charitable giving to becoming a form of microfinance. Copestake (1995) suggests two different options. Muhammad Yunus contends that credit is a major contributor to poverty, hence an organization would restrict its mission to loan-giving. He implies this when he uses the term "credit minimalist approach". Though considering impact is surely prevalent, the organization prefers to gauge its effectiveness in terms of financial indicators of outreach

repayment. The objectives of the organization will typically include the provision of a wider range of financial, economic, social, and organizational interventions if, on the other hand, poverty is thought of as the result of a more complicated process that includes liquidity problems in addition to other factors. He refers to this strategy as "credit plus." Microcredit is associated with the "minimalist" approach, whereas microfinance is associated with the "credit-plus" method.

The concept of microcredit has expanded to include microfinance during the past ten years as more people have come to understand the value and necessity of other services beyond loans (i.e., microcredit alone). Microfinance, according to the Consultative Group to Assist the Impoverished (CGAP), is an inclusive financial system in which poor people all over the world have ongoing access to a wide range of high-quality financial services offered by various organizations through a variety of practical channels. Loans, savings, remittance services (money transfers), and microinsurance are all offered by microfinance programs (Akotey & Adjasi, 2016).

The reach of microfinance initiatives among the poor is astounding. At the time of their first loan, roughly 107 million of the 155 million clients served by the more than 3,500 MFIs at the Microcredit Summit in December 2007 were among the lowest. About 89 million people, or roughly 83 percent of the lowest clients, were women (Im & Sun, 2015).

According to Boudreaux and Cowen (2008), after decades of failure, the world's assistance organizations seem to think they have finally found a successful approach. The United Nations declared 2005 to be the "International Year of Microcredit." According to then-Secretary-General Kofi Annan, providing disadvantaged individuals with microloans to help them launch small businesses acknowledges that they are the solution, not the issue. It allows them to develop their thoughts, drive, and vision. It is a strategy for encouraging successful enterprises and, as a result, enabling communities to prosper.

2.2.3 Microfinance and Economic Growth

Microfinance bank deposits are savings instruments that give users of microloans access to loans. The low level of microfinance deposits, according to Ogunleye and Akanbi (2014), can be attributed to both the general low level of income and the saving public's low confidence in microfinance firms. According to Taiwo (2005), the provision of microfinance services encouraged microfinance clients to save more, and as loan facilities were expanded, their monthly income grew.

Ajagbe and Bolaji (2013) investigate the effects of a microfinance bank on the socioeconomic level of living of commercial motorbike riders in the Ilorin-west Local Government Area of Kwara State, Nigeria. The results of the study allow us to draw the conclusion that microfinance bank loans in Ilorin West local government area of Kwara State, Nigeria, greatly contribute to economic growth by enhancing the standard of life for commercial motorbike riders.

In their 2016 study, Rauf and Mahmood examined how the microfinance sector's expansion affects the effectiveness of Pakistani microfinance organizations. An intensive development approach was adopted to establish a balance between outreach and poverty reduction, demonstrating the effectiveness of premium pricing in the early stages of development. It's possible that as a result, productivity, efficiency, and efficiency all increased. Instead, the sector launched a comprehensive development plan that included large financial investments in the physical infrastructure as well as a brisk acceleration of the growth of the department network and recruiting. Institutions with limited resources must therefore prioritize sustainability over their primary goal of delivering social assistance.

According to Ketu (2008), more than 13000 farmers nationally have benefited from microfinance institutions' more than 800 million microcredits for bettering their agricultural practices. Additionally, he discovered that changes in economic growth and development may be statistically explained by microfinance loans at the 0.15 level of significance. Additionally, he discovered that advances and loans contribute to economic progress.

Mahajan (2005) asserts that microcredit is insufficient for economic progress and is insufficient even as a tool for reducing poverty. He offers five presumptions that he says represent the microcredit industry's constraints. Here are a few instances:

- The idea that the most crucial financial service needed by the poor is credit. In

actuality, it isn't. The need and desire for saving are far greater among the poor than their appetite for borrowing.

- The idea that microbusinesses that receive financing will inevitably be successful. This is the well-known debate between integrated microenterprise promotion strategies and limited finance approaches. He admits that the promotion of microenterprises requires microcredit, but it is not a sufficient prerequisite. Other contributions are required, such as locating chances for a living, choosing and encouraging microentrepreneurs, and offering business and technical training. The development of market connections between inputs and outputs, common infrastructure, and, in some situations, regulatory permits are some more examples.
- A presumption that microcredit will help the most vulnerable individuals who desire to work for themselves. Many people who support using microcredit as a strategy to fight poverty start off with the assumption that those who live in poverty want to work for themselves. Hulme and Mosley (1996) assert that the majority of the world's poor, especially the poorest (such as the landless laborers in India), prefer regular wage employment, whether it be on or off a farm.
- The idea that people who are just above the poverty line do not need microcredit and that giving it to them would be inappropriate. Although a sizable part of clients in many microcredit programs, like Grameen Bank, are poor, this is not the case for a sizable portion of other microcredit programs, like India's self-help

group (SHG) bank connection program.

- The notion that all microcredit organizations can achieve financial independence. Mahajan (2005) voiced his displeasure. He cites CGAP research that demonstrated that only about 100 of the 10,000 microfinance institutions (MFIs) worldwide are self-sufficient in their financial operations and draws the conclusion that the twin premise that microcredit can benefit the poor while also being self-sustaining financially is not supported in practice.

2.3 Theoretical Review

2.3.1 Financial Growth Theory

For small businesses, Berger and Udell (1998) proposed the financial growth theory, which states that as a business expands, obtains competence, and becomes less opaque from an informational standpoint, financial demands and financing options change. They also suggest that firms can be classified according to their size, age, and information, with smaller, younger, and more opaque firms on the left end of the spectrum needing initial insider financing, trade credit, and/or angel investment. The growth cycle model predicts that when a business expands, it will be able to obtain mid-term loans as a source of intermediate debt and venture capital (VC) as a source of intermediate equity. At the end of the growth paradigm, the company will probably be able to obtain public equity (PE) or long-term finance as it gets older, more knowledgeable, and more transparent. Concerning small businesses, funding issues predominate in the literature. Small

businesses rely more on the unregulated financial market, which restricts the types of financing they may obtain, hence their capital structures are very different from those of larger businesses. Due to the small company's early reliance on internal funding, a unique situation where capital structure decisions are made with constrained financing options exists. As is well known, small businesses have unique optimal capital structures and receive funding from a variety of sources at different points in their organizational histories (Berger and Udell, 1998).

2.3.2 Theory of Pecking Order

In 1984, Myers proposed the concept of the pecking order. The main conclusion of the model is that firms will not have a target optimal capital structure, but rather will adopt a pecking order of incremental financing options that prioritizes internally generated funds first, then debt issuance, and finally new equity financing only after the firm has reached its "debt capacity."

This theory, in accordance with Myers and Majluf (1984), is applied to expenses resulting from asymmetric knowledge between managers and the market, as well as the premise that trade-off theory costs and benefits are associated with debt financing when issuing new securities. The price of issuing new shares as well as the price of holding on to retained profits make up the cost of equity. Each of these equity funding strategies is more expensive than debt. Given that shareholders must pay personal taxes on distributed earnings but not on retained earnings and that retained earnings do not require floatation

charges, retained earnings are less expensive when compared to new issues. Retained earnings are therefore favoured above the other two equity funding sources. Enterprises prefer internal finance, it has been found in practice. Companies look for external funding by issuing the safest securities, such as convertible debentures, and, as a last resort, stock, if internal resources are insufficient to cover investment outlays.

The pecking-order theory makes the following presumptions: Internal funding is preferred by businesses over external capital, and dividend payment ratios are adapted to investment opportunities. This means that if investment is low, the dividend payout ratio will be high, and vice versa. If the company's only external funding option is to initially issue the safest security, the company should do so. Beginning with debt, moving on to hybrids like convertibles, and concluding with equity (Myers, 1984).

2.3.3 Theory of Financial Intermediation

According to Fredrick (2012), Guttentag and Lindsay established Financial Intermediation Theory (1968). Financial intermediation is the transfer of funds from surplus agencies to deficit agencies via financial intermediation (Alexandru & Marius, 2009). Financial intermediation is based on the regulation of money production, saving, and economic financing (Bert & Dick, 2003). Financial intermediary theory assumes that at least one party to a transaction knows relevant information while the other(s) does not. The theory's applications, that is, the theory only considers asymmetries in one way, are criticized. It is possible, however, that there are information gaps in favor of the opposing

party. Another complaint is that the model's competitive dynamics are overly simplified. Myer (2001) assumed a model in which the insurance market can approach equilibrium with every policy exchanged yielding zero profits. The hypothesis does not take into account substitute products, aggressive market entrants trading at a loss, and it also assumes that all enterprises have the same expenses for producing services. Taking such things into consideration may have a significant impact on the model's outcomes.

According to Paul and Paul (2011), this kind of regulation has an impact on the liquidity and solveability of the intermediaries involved. Due to growing competition, globalization, and market liberalization, banks have found it increasingly difficult to retain profitability. The necessity for specialized alliances is considered as critical for these Financial Institutions' long-term growth and viability, as well as their liquidity. In comparison, insurance businesses have found it increasingly challenging to sustain their competitive advantage in an ever-changing competitive market throughout the years. According to Hamisu (2011), the increasingly competitive climate in the financial services market has put pressure on companies to develop and use alternate distribution methods. With this, banks are attempting to ensure that they can amass a large customer base in order to expand their loan offerings to customers.

2.4 Empirical Review

Cole and Akintola (2021) conducted a study from 1999 to 2018 on microfinance banks and economic growth in Nigeria. Secondary data were gathered from the Bulletin of the

Central Bank of Nigeria. The data was examined using conventional least square regression techniques. The estimation regression results indicate a positive association between microfinance bank credit and real gross domestic product, which is a proxy for economic growth.

Afolabi and Emmanuel (2012) examined the extent to which microfinance lending affects indigenous SMEs' access to credit and the extent to which the microfinance banks' (MFBs) intermediation activities helped to or hindered the development of SMEs. There were 800 of these indigenous SMEs identified. Data were collected from 300 of the selected indigenous SMEs using a questionnaire survey conducted in four (4) states in the Niger Delta region of the country. The findings indicated that microfinance financing contributed positively to the development of such firms. However, it appears as though a number of constraints, including lengthy credit approval processes, poorly packaged business plans, and a perceived high cost of financing, restrict indigenous SMEs' access to credit.

Olowe, Moradeyo, and Babalola (2013) examined the influence of microfinance on the growth of SMEs in Nigeria. The study's population is made up of complete SMEs in Oyo State, albeit it is limited to the Ibadan metropolitan. A total of 50 SMEs operators were chosen using a purposive sample technique. The data were analyzed using the individual correlation coefficient and multiple regression analysis. The study's findings indicated that financial services provided through MFIs had a considerable positive effect on the

growth of SMEs and the economic development of Nigeria. Ashamu (2014) evaluates the microfinance institutions' (MFIs) performance in Lagos State. A simple random sampling procedure was used to identify the 110 SMEs that comprised the study's sample size. A structured questionnaire was created to aid in the collecting of pertinent data for analysis using descriptive statistics. The study's findings indicated that MFI operations have expanded significantly, owing mostly to the expansion of informal sector activity. Additionally, the study found that the sub-sector confronts a number of issues, which the research addressed.

Ademola and Arogundede (2014) evaluated the influence of microfinance on economic growth and development in Nigeria, with a particular emphasis on the fundamental function of microfinance institutions: poverty alleviation and small-scale firm lending. The OLS multiple regression analysis of secondary data demonstrated that microfinance activities had a sizable impact on economic growth and development in Nigeria. If this is true, it follows that increased investment by microfinance institutions will result in greater poverty reduction, job creation, and economic progress.

Olakojo and Olanipekun (2011) conducted an empirical examination of the microfinance bank's impact on the Nigerian economy. On annual time series data from 1992 to 2008, they used pooled regression and ordinary least squares econometric techniques. The empirical evidence indicates that the banking sector's loans and advances have a beneficial effect on the current level of sectoral output. However, a sectoral analysis

using OLS demonstrates that, while loans and advances from microfinance banks have a beneficial effect on manufacturing, building and construction, mining and quarrying output, the same cannot be said for agriculture. They found that microfinance banking is vital to the economy's well-being since it not only assists small and medium-sized firms but also the real sector, hence accelerating economic growth in Nigeria.

Maksudova (2010) conducted an empirical study on the role of microfinance on the development of the financial sector and economic growth in the Czech Republic. He used a panel data technique in addition to the Granger causality test to examine the relationship between microfinance banks and economic growth in 103 countries from 1995 to 2008.

Murad and Idewele (2017) evaluated the impact of microfinance institutions on a country's economic growth, focusing on Nigeria. Due to the cross-sectional and time series nature of the data, multiple regression analysis was performed in this study. The study's findings indicate that microfinance loans have a considerable positive effect on Nigeria's short run economic performance. Microfinance loans significantly increased consumption per capita in the short run, despite the fact that these banks' loans had a negligible effect on economic growth in the long run. Microfinance investment, on the other hand, has a long-term positive effect on Nigeria's economic performance.

Obayagbona (2018) conducted an empirical study on the impact of microfinance banks on poverty reduction in Nigeria, as well as the ramifications of her results. The study

spans a 25-year timeframe (1992 to 2016). The correlation coefficient and the econometric approach of ordinary least squares (OLS) were utilized in the empirical inquiry. The empirical analysis reveals that while microfinance assets and loan-to-deposit ratio are significant determinants of poverty alleviation in Nigeria, microfinance deposits and liquidity ratio failed to reach the 5% level of significance, indicating that they have no effect on poverty reduction in the country. Microfinance gross profits and microfinance bank loans, on the other hand, have a major adverse effect on poverty alleviation in Nigeria.

The effect of microfinance loans on poverty reduction in Nigeria was empirically explored by Jegede, Kehinde, and Akinlabi (2011). The findings of the chi-square test, F-test, and T-test indicated that there is a statistically significant difference between individuals who utilize microfinance banks and those who do not. Thus, microfinance organizations have a considerable impact on poverty reduction through boosting income and altering the economic standing of their customers.

Oladejo (2013) investigates the impact of credit availability and other particular microfinance bank-related variables on selected SMEs in Nigeria's Osun State. Using descriptive statistics on main and secondary data, the empirical research suggests that microcredit delivery services have a considerable beneficial effect on the performance of SMEs.

Okezie, Bankoli, and Ebomuche (2013) analyze the efficiency of microfinance banks in reducing poverty in Nigeria using descriptive statistics on primary data containing 382 respondents from three senatorial districts in Imo state. The empirical findings indicated that the affluent class has the potential to save the rural poor.

Akosile and Ajayi (2014) investigate the impact of microfinance banks' lending facilities on micro, small, and medium-sized firms in Nigeria in terms of poverty reduction and quick economic growth. By conducting a survey and conducting descriptive research on five microfinance banks and three (CICSs) in rural, semi-urban, and urban areas of Nigeria, the empirical findings revealed a strong positive impact of microfinance credits and financial services on poverty reduction and micro, small, and medium-sized enterprises.

Kasali, Ahmad, and Lim (2015) study the relationship between microfinance banks and poverty reduction in Nigeria's South-West Zone. Using descriptive statistics and a Binary Logit Regression Model, the empirical findings demonstrate that microfinance loans have a considerable positive influence on loan beneficiaries, hence reducing poverty.

Kamel and Jalel-Eddine (2015) evaluate the effect of microfinance on poverty reduction for approximately 596 microfinance institutions in 57 emerging economies from 2005 to 2011. Using panel data analysis, the empirical findings indicate that an economy with a larger gross loan portfolio per capita of microfinance firms likely to have a lower poverty

rate. This demonstrates that microfinance institutions are capable of efficiently alleviating poverty in these countries.

After reviewing these earlier studies, it is clear that the majority of them discovered a positive correlation between microfinance and economic growth. While some had a big impact, others had a little one.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter discusses the many methodology steps utilized to conduct this study, including the population, sampling method, and research design. Additionally, it outlines the operationalization, data sources, theoretical framework, model definition, and data estimation factors that will be used in the study.

3.2 Research Design

The research design used in the study is ex post facto. This kind of study is carried out after the fact, using data that has already been collected (Saunders, 2012). The researcher was unable to manipulate the input and output variables because they had already happened because the variables under consideration were historical in nature. This limited the researcher's options for a design.

3.3 Population and Sample of the Study

The study's target population includes all of Nigeria's microfinance institutions. In total, the Central Bank of Nigeria has granted licenses to 916 microfinance institutions (CBN, 2021). Since the study will use time series data, every microfinance institution in Nigeria will be included in the sample.

3.4 Sources of Data

The information for this study would come from secondary sources. The secondary data came from the Central Bank of Nigeria's (CBN) statistical bulletin, which covered the years 1995 through 2020. The internet, other articles, journals, and personal research were used as additional data sources.

3.5 Theoretical Framework

The intermediation hypothesis is the foundation of this work. The process of transferring money between lenders and borrowers is known as "intermediation." Microfinance banks serve as financial intermediaries that make it easier for prospective borrowers to borrow money directly from a financial market. Certain assets or liabilities are changed into other assets or liabilities through the intermediation process (Siklos, 2001). Because of this, financial intermediaries transfer money from savers to those who need liquid funds to carry out a desired activity (investors). As a result, the financial intermediation function of microfinance banks has an impact on the flow of money throughout the economy and, in turn, the rate of economic expansion.

3.6 Model Specification

The model used to investigate the impact of microfinance banks on economic growth in Nigeria in this study was adapted from Aliero, Abdullahi and Adam (2013) which is stated below:

$Y = \beta_0 + \beta_1 MFCt + \mu$

Where:

Y = Real gross domestic product (economic growth).

β_0 = Slope or constant parameter

MFC_t = Microfinance institutions credit at time t.

β_1 = Vector coefficient of microfinance institutions credit

μ = Stochastic term

To build our core model, which serves as the foundation for our study, we changed the aforementioned model by including microfinance bank investment, microfinance bank deposits, and microfinance bank contributions to agricultural production. The functional form of the baseline model is shown as follows:

$RGDP_t = f(MBL_t, MBI_t, MBD_t, MBCA_t)$ ……(3.1)

The above transformed into its econometric form is stated below:

$RGDP_t = \beta_0 + \beta_1 MBLt + \beta_2 MBIt + \beta_3 MBD + \beta_4 MBCA + \mu_t$ ……(3.1)

Where;

RGDP= Real gross domestic product

MBL_t = Microfinance banks loans at time t

MBI_t = Microfinance banks investment at time t

MBD_t = Microfinance banks deposit at time t

$MBCA_t$ = Microfinance banks contributions to agricultural production at time t

B_0 = intercept parameter which is autonomous.

Where $\beta_1,\beta_{2,}\beta_3,\beta_4,$ are regression parameters to be estimated.

μ = is the error term.

The a priori expectation is;

$_{1,2,34}>0$

3.7 Measurement of Variables

3.7.1 Dependent Variables

Economic growth was chosen as the dependent variable in the course of this study. Real gross domestic product will be used as a proxy of the dependent variable economic growth.

3.7.2 Predictors/Explanatory/Independent Variables

Microfinance banks loans (MBL), Microfinance banks investment (MBI), Microfinance banks deposits (MBD), and Microfinance banks contributions to agricultural production (MBCA).

The measurements and operationalization of all the variables of the study are presented below:

Table 3.1: Measurement of Variables

Variable	Item	Abbreviation	Measurement
Dependent	Real gross domestic product	RGDP	GDP at constant prices
Independent Variable	Microfinance banks loan	MBL	Total loans disbursed by microfinance banks.
Independent Variable	Microfinance banks investment	MBI	Sum total of the portfolio of investment by microfinance banks
Independent Variable	Microfinance banks deposits	MBD	Aggregate of funds held by primary microfinance banks as deposit
Independent Variable	Microfinance banks contribution to agriculture production.	MBCA	Total loans disbursed by microfinance banks to agriculture sector.

Source: Author's compilation (2022).

3.8 Method of Data Analysis

The analysis of the empirical model and examination of the effect of microfinance banks on economic growth in Nigeria will be conducted using the ordinary least squares (OLS) econometric technique. The measure of the model's quality of fit will be examined using the R-squared. The joint statistical significance of the explanatory variables on the dependent variable will also be evaluated using F-statistics. In order to determine if positive serial correlation exists or not, an econometric criterion will be required. Durbin Watson statistics are the measurement method used for this. The 1990–2021 time frame will be covered by the econometric analysis.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

In this chapter, the information used to conduct the study's empirical evaluation is presented and analyzed. In order to provide the research a strong foundation, the analysis uses both statistical and econometric methodologies. The descriptive statistics and correlation analysis are the statistical methods used. These statistics are used to characterize the data in the beginning. In order to concisely assess the impact of independent variables on the dependent variable, the empirical model derived from the time series data was estimated using the ordinary least square (OLS) technique.

4.2 Summary Statistics

In order to get insight into the descriptive features of the data, the summary statistics are estimated and presented in Table 4.1.

Table 4.1: Summary Statistics

	RGDP	MBL	MBI	MBD	MBCA	INF
Mean	47497.83	72888.82	3155.810	56.64469	209.7431	18.06083
Median	26474.43	19650.20	3033.845	58.32000	64.92000	12.71577
Maximum	173527.7	362630.0	8959.800	83.34000	772.3800	72.83550
Minimum	489.7665	135.8000	65.79000	23.57000	4.220000	5.388008
Std. Dev.	51940.53	101892.7	2831.788	15.70317	242.2637	16.36505
Skewness	0.954321	1.432383	0.498455	-0.293700	1.005483	2.170105
Kurtosis	2.695299	3.934083	2.066172	2.287429	2.515744	6.633406
Jarque-Bera	4.981005	12.10586	2.487817	1.137063	5.704655	42.71876
Probability	0.082868	0.002351	0.288255	0.566357	0.057710	0.000000
Sum	1519931.	2332442.	100985.9	1812.630	6711.780	577.9467
Sum Sq. Dev.	8.36E+10	3.22E+11	2.49E+08	7644.280	1819442.	8302.263
Observations	32	32	32	32	32	32

Source: Results extracted from E-views 8.0 Output, (2023).

Table 4.1 describes the statistical properties of the variables of study. Economic growth (RGDP) which is the dependent variable has a mean value of 47497.83 and a standard deviation of 51940.53. It can be seen from the statistics that RGDP is widely dispersed from the average value since the standard deviation (S.D.) of the series is higher than the mean value. This shows that the discrepancies from the mean for the dependent variable is wide and suggests that RGDP over the years exhibits a high deviation from the mean. The real GDP over the period of study ranges between N173527.7billion and N489.7665billion. Furthermore, the descriptive statistics indicate that RGDP series is positively skewed. The kurtosis which indicates the peakedness or flatness of the distribution of the series stood at 2.695299. Thus, the kurtosis value is less than 3. This suggests flatness (plytokurtic) of the distribution. The Jarque-Bera test statistic suggests that RGDP is normally distributed since the p-values is greater than 0.05.

Regarding the independent variables, it can be seen from the statistics that microfinance bank loans (MBL), microfinance bank investments (MBI) and inflation rate (INF) are not widely dispersed from their average values since the standard deviation (S.D.) of the series are less than their mean values. However, microfinance bank deposit (MB) and microfinance bank credit to agriculture (MBCA) has greater dispersion from its average. Inflation rate (INF) ranges between 72.83% and 5.38%. The minimum microfinance bank loans (MBL), microfinance investment (MFBI), microfinance bank deposit (MBD) and microfinance bank credit to agriculture (MBCA) over the period of study was N135.80b, N 65.79b, N23.57b and N4.22b respectively; and the maximum values for the trio are N 362630.0b, N8959.80b, N 83.34b and N772.38b respectively.

Furthermore, the descriptive statistics indicate that all the series are positively skewed except for microfinance bank deposit (MBD) that is negatively skewed. Only one of the series (inflation rate) has a kurtosis that is above 3, implying the leptokurtic nature of the series. Others variables (MBL, MBI, MBD and MBCA) are platykurtic in nature. The p-values of the Jargue-Bera (JB) statistics of the series indicate that MBI and MBD are normally distributed with their probability greater than (>) 0.05 thus statistically insignificant, the other two variables (MBL, MBCA and INFR) pass the normality test at different levels of significance with a probability that is less than (<) 0.05 thus MBL, MBCA and INF are statistically significant, hence not normally distributed.

4.3 Correlation Matrix

To further examine the background behavioural patterns of the data series in the study, the correlation matrix coefficients are performed. The outcome of the correlation analysis is presented in Table 4.2. Hence, the correlation matrix for the variables indicates that economic growth (RGDP) has positive correlation with all the explanatory variables except microfinance bank deposit (MBD) and inflation rate (INF) which is negative.

Table 4.2: Pearson Correlation Statistics

	RGDP	MBL	MBI	MBD	MBCA	INF
RGDP	1.000000					
MBL	0.673925	1.000000				
MBI	0.679476	0.566807	1.000000			
MBD	-0.675017	-0.697701	-0.217563	1.000000		
MBCA	0.686160	0.670299	0.587569	-0.734281	1.000000	
INF	-0.301711	-0.223357	-0.360173	0.090828	-0.272346	1.000000

Source: Results extracted from E-views 8.0 Output, (2023).

Table 4.2 further reveal that there is a positive correlation between microfinance bank investments (MBI) and microfinance bank loans (MBL); while MBD and MBL were negatively correlated. Furthermore, MBCA and MBL were positively correlated while INF and MBL were negatively correlated. The result also, reveals that MBD and MBI were negatively correlated while MBCA and MBI were positively correlated; however, INF and MBI were negatively correlated. Furthermore, MBCA and MBD were negatively correlated while the correlation between INF and MBD was negative. Also, INF and MBCA were negatively correlated.

Given, that none of the values of the correlation results is greater than 0.90, we can safely conclude that autocorrelation is absent in the data and we can go ahead to use the data for regression analysis.

4.4 Ordinary Least Square (OLS) Regression Estimation

The ordinary least squares (OLS) regression equation for the time series data of 32 years range, 1990 - 2021 is shown in Table 4.3.

Table 4.3: OLS Regression Result of Microfinance Bank Activities and Economic Growth

Dependent Variable	Independent Variables	Coefficient	t-Statistic	Probability
RGDP	C	-4388.495	-0.753128	0.4581
	MBL	0.154543	4.573145	0.0001**
	MBI	2.575850	6.529500	0.0000**
	MBD	92.54053	1.105425	0.2791
	MBCA	134.1686	8.438436	0.0000**
	INF	-49.27025	-0.902649	0.3750
R^2	0.993619			
Adjusted R^2	0.992392			
F-statistic	809.75	Prob(F-stat)	0.000000	
Durbin-Watson	1.816751			

Source: Results Extracted from E-VIEWS 8.0 output, (2023). ** denotes significance @ 1% level.

Table 4.3 reports the multivariate regression using Ordinary Least Squares (OLS) technique. The R^2 of 0.993619 indicates that about 99% of total variation in the dependent variable (RGDP) is accounted for by the explanatory variables (i.e., MBL, MBI, MBD, MBCA and INF). This result remains robust even after adjusting for the degrees of freedom (df) as indicated by the value of adjusted R^2, which is 0.992392 (i.e. ≈ 99%). Thus, the regression has a good fit. The F-statistic, which is a test of explanatory power of the model is 809.75 with the corresponding probability value of 0.0000, is statistically significant at 1%. This therefore implies that the five explanatory variables have joint significant effect on economic growth (RGDP) in Nigeria. The Durbin-Watson statistic of 1.81 indicates we can completely rule out autocorrelation.

The coefficient of microfinance bank loans (MBL) is found to be positive and statistically significant at 1% with t-statistic of 4.573145 and its corresponding probability value of 0.0001. The coefficient of microfinance bank investment (MBI) pass the significance test at the 1% as indicated by the t-statistic value of 6.529500 (which is greater than 2) with corresponding probability value of 0.0000. Furthermore, the coefficient of microfinance bank deposit (MBD) was not statistically significant as indicated by the t-statistic of value of 1.105425 with corresponding probability value of 0.2791. However, the coefficient of microfinance bank loan to agriculture (MBCA) was found to be positive and statistically significant at 1% with t-statistic of 8.438436 and its corresponding probability value of 0.0000. Finally, the coefficient of inflation rate (INF) was negative

and not statistically significant as indicated by the t-statistic of value of -0.902649 with corresponding probability value of 0.3750.

4.5 Hypotheses Testing

In this section, the working hypotheses of the study are tested based on the outcome of the results from the estimated models of the study. The hypotheses are tested using the coefficients estimated from the ordinary least square regression.

Hypothesis One

$H0_1$: There is no significant relationship between micro finance bank loans and economic growth in Nigeria

Decision Rule: Microfinance bank loans (MBL) with t value above 2 and probability value of 0.0001 < 0.01, as shown in Table 4.3. We reject the null hypothesis which states that microfinance bank loans have no significant effect on economic growth in Nigeria. Therefore, the alternative hypothesis which states that microfinance bank loans have significant effect on economic growth in Nigeria is accepted.

Hypothesis Two

H_{02}: There is no significant relationship between micro finance bank investment and economic growth in Nigeria

Decision Rule: Microfinance bank investments (MBI) with t value above 2 and probability value of 0.0000 < 0.01, as shown in Table 4.3. We reject the null hypothesis which states that microfinance bank investments have no significant effect on economic growth in Nigeria. Therefore, the alternative hypothesis which states that microfinance bank loans have significant effect on economic growth in Nigeria is accepted.

Hypothesis Three

H_{03}: Microfinance deposit has no significant impact on economic growth in Nigeria;

Decision Rule: Microfinance bank deposit (MBD) with t value less than 2 and probability value of 0.1399 > 0.05, as shown in Table 4.3. We reject the alternative hypothesis which states that microfinance bank deposit has significant effect on economic growth in Nigeria. Therefore, the null hypothesis which states that microfinance bank deposit has no significant effect on economic growth in Nigeria is accepted.

Hypothesis Four

H_{04}: There is no significant relationship between micro finance bank contributions to agricultural production and economic growth in Nigeria.

Decision Rule: Microfinance bank contribution to agriculture (MBCA) with t value above 2 and probability value of 0.0000 < 0.01, as shown in Table 4.3. We reject the null hypothesis which states that microfinance bank contribution to agriculture have no

significant effect on economic growth in Nigeria. Therefore, the alternative hypothesis which states that microfinance bank contribution to agriculture has significant effect on economic growth in Nigeria is accepted.

4.6 Discussion of Findings and Policy Implications

First, the study finds that a positive and significant relationship subsists between microfinance bank loans (MBL) and economic growth in Nigeria. The implication of this finding is that microfinance bank loan is a key factor that influences economic growth in Nigeria. This finding agreed with those of Murad and Idewale (2017), and Cole and Akintola (2021) who concluded that microfinance bank loans have significant positive effect on economic growth.

Second, microfinance bank investments (MBI) have significant positive impact on economic growth in Nigeria. The implication of this finding is that microfinance investment is a critical factor that stimulates economic growth in Nigeria**.** This result is in agreement with Ademola and Arogundade (2014) and Murad & Idewele (2017) who reported a significant impact of microfinance investment on economic growth.

Third, the findings indicate that microfinance bank deposit (MBD) exerts a non-significant positive impact on economic growth in Nigeria. The implication of MBD not significantly related to economic growth is that MBD is not a growth enhancing factor in the Nigerian economy for the period studied.

Fourth, microfinance bank contribution to agriculture (MBCA) has significant positive impact on economic growth in Nigeria. The implication of this finding is that microfinance bank contribution to agriculture is pivotal to the growth of Nigerian economy for the period studied.

Finally, the result also confirmed that inflation rate (INF) has non-significant negative impact on economic growth (RGDP) in Nigeria. This means that inflation rate is not a key factor that affect economic growth in Nigeria for the period studied. The result from this study is not in agreement with that of Iyeli and Utting (2017) who concluded a significant negative relationship between inflation rate and economic growth in their study.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECCOMENDATIONS

5.1 Introduction

In this chapter, the focus is on the summary of findings from the empirical analysis as well as the conclusion. The policy recommendations dictated by these findings are then presented.

5.2 Summary of Findings

This study examines the effect of microfinance banks activities on economic growth in Nigeria. The indicators of microfinance banks activities were microfinance bank loans, microfinance bank investments, microfinance bank deposit and microfinance bank contribution to agriculture while inflation rate was included in the model as a control variable. Economic growth was proxied by real Gross Domestic Product. Since we are using time series data, the population of the study comprises of all the microfinance banks in Nigeria. The entire population also constitute the sample. The study utilized secondary data which was collected from the Central Bank of Nigeria (CBN) Statistical Bulletin 2021. The period of study was from 1990 – 2021. The multivariate ordinary least square analysis was employed to estimate the model. The empirical results show that microfinance bank loans (MBL), microfinance bank investments (MBI) and microfinance bank contribution to agriculture were statistically significant at the 1% while

microfinance bank deposit (MBD) and inflation rate (INF) fail the significant test. Specifically, the following findings were made from the empirical analysis:

(i) Microfinance bank loans (MBL) has a positive and significant effect on economic growth in Nigeria;

(ii) Microfinance bank investments (MBI) has a positive and significant effect on economic growth in Nigeria;

(iii) Microfinance bank deposit (MBD) has a positive and non-significant effect on economic growth in Nigeria; and

(iv) Inflation rate (INF) has a negative and non-significant effect on economic growth in Nigeria.

5.3 Conclusion

The study empirically investigate the effect of microfinance banks activities on economic growth in Nigeria for the period 1990 – 2021, using descriptive statistics, correlation analysis and multivariate ordinary least square (OLS) regression techniques. Overall, findings from the study seem to provide evidence that microfinance banks loans, microfinance banks investment and microfinance banks contribution to agriculture exerts a positive and significant effect on poverty alleviation in Nigeria while microfinance investments and liquidity had no significant effect on economic growth in Nigeria. From the foregoing, the study concluded that microfinance banks loans, microfinance banks

investment and microfinance banks contribution to agriculture are the key microfinance banks activities that stimulate economic growth in Nigeria for the period studied.

5.4 Recommendations

Based on the empirical findings of this study, the following policy recommendations are suggested for policy action:

(i) Government and other stakeholders should encourage the activities of microfinance banks especially lending, investments and financing of agricultural sector in view of its relevance to the growth of the economy in Nigeria.

(ii) Management of microfinance banks should introduce strategies that can increase the loans and investments of microfinance banks thereby encouraging the growth of the Nigerian economy.

(iii) There is a need for government of Nigeria to empower microfinance banks through funding and capacity building to facilitate increased microfinance banks activities in the economy.

(iv) The Government of Nigeria should create enabling environment and programmes in the economy capable of stimulating growth that will further enhance the performance of the microfinance sub-sector in Nigeria.

(v) Microfinance banks should be encouraged to continue to give credit to the agricultural sector as this will enhance productivity, which will in turn lead to increased income.

(vi) Credit approved must be monitored to ensure that they are used for the purpose for which they are given.

(vii) Governments should develop and implement coherent policies that will encourage microfinance banks to give out more loans to the agricultural sector such that they effectively contribute meaningfully to grow the economy.

(viii) Since, the study reveals that microfinance deposit do not have any significant impact on economic growth, management of microfinance banks should ensure proper management of their deposit in so that it can contribute meaningfully to economic growth in Nigeria.

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APPENDICES

Year	RGDP	MBL	MBI	MBD	INF	MBCA
1990	489.7664799	135.8	65.79	70.14	7.3644003056	4.22
1991	584.2498386	654.5	86.51	72.05	13.0069731037	5.01
1992	897.1173113	1220.6	118.40	75.14	44.5888427150	6.98
1993	1244.798931	1134.5	326.60	74.05	57.1652528349	10.75
1994	1751.279915	1139.5	491.40	57.94	57.0317089120	17.76
1995	3069.431764	1241.5	354.30	55.71	72.8355022973	25.28
1996	4045.321615	1,400.20	254.00	47.80	29.2682926829	33.26
1997	4374.49647	1,618.80	384.00	42.19	8.5298742138	27.94
1998	4756.705704	2,526.80	218.40	49.75	9.9963781239	27.18
1999	5426.470655	2,958.30	436.80	79.56	6.6183733948	31.05
2000	6990.619157	3,666.60	450.20	61.42	6.9332921557	41.03
2001	8150.016062	1,314.00	304.30	59.29	18.8736462094	55.85
2002	11383.65856	4,310.90	925.50	63.05	12.8765792031	59.85
2003	13418.0129	9,954.80	2,261.00	54.50	14.0317836131	62.10
2004	17938.38118	11,353.80	2,612.70	56.41	14.9980338183	67.74
2005	22884.89639	28,504.80	3,594.10	63.88	17.8634933662	48.56
2006	30063.9624	16,450.20	2,712.19	75.88	8.2252215202	49.39
2007	34318.66573	22,850.20	3,715.70	83.34	5.3880079686	149.58
2008	39542.42756	42,753.06	7,295.30	72.27	11.5810751748	106.35
2009	43012.50743	58,215.66	8,025.00	64.85	12.5549603893	135.70
2010	54612.26418	52,867.50	8,674.20	75.13	13.7202018444	128.41
2011	62980.39722	50,928.30	8,959.80	58.70	10.8400275419	255.21
2012	71713.93506	90,422.25	4,284.10	59.89	12.2177817351	316.36
2013	80092.56338	94,055.58	3,355.50	44.93	8.4758272850	343.70
2014	89043.61526	112,110.15	4,144.36	49.99	8.0624858244	478.91
2015	94144.96045	187,247.34	5,333.54	45.81	9.0093871833	449.31
2016	101489.4922	196,194.99	3,458.53	36.27	15.6753405526	525.95
2017	113711.6346	194,024.94	5,281.19	25.64	16.5235399802	528.24
2018	127736.8278	207,963.32	5,281.19	23.57	12.0947315505	638.46
2019	144210.4921	262,630.00	5,830.07	39.27	11.3967949687	636.08
2020	152324.0706	307,963.32	5,821.19	35.64	13.2460234277	673.19
2021	173527.6623	362,630.00	5,930.07	38.57	16.9528457222	772.38

	RGDP	MBL	MBI	MBD	MBCA	INF
Mean	47497.83	72888.82	3155.810	56.64469	209.7431	18.06083
Median	26474.43	19650.20	3033.845	58.32000	64.92000	12.71577
Maximum	173527.7	362630.0	8959.800	83.34000	772.3800	72.83550
Minimum	489.7665	135.8000	65.79000	23.57000	4.220000	5.388008
Std. Dev.	51940.53	101892.7	2831.788	15.70317	242.2637	16.36505
Skewness	0.954321	1.432383	0.498455	-0.293700	1.005483	2.170105
Kurtosis	2.695299	3.934083	2.066172	2.287429	2.515744	6.633406
Jarque-Bera	4.981005	12.10586	2.487817	1.137063	5.704655	42.71876
Probability	0.082868	0.002351	0.288255	0.566357	0.057710	0.000000
Sum	1519931.	2332442.	100985.9	1812.630	6711.780	577.9467
Sum Sq. Dev.	8.36E+10	3.22E+11	2.49E+08	7644.280	1819442.	8302.263
Observations	32	32	32	32	32	32

	RGDP	MBL	MBI	MBD	MCA	INF
RGDP	1.000000	0.673925	0.679476	-0.675017	0.686160	-0.301711
MBL	0.673925	1.000000	0.566807	-0.697701	0.970299	-0.223357
MBI	0.679476	0.566807	1.000000	-0.217563	0.587569	-0.360173
MBD	-0.675017	-0.697701	-0.217563	1.000000	-0.734281	0.090828
MBCA	0.686160	0.670299	0.587569	-0.734281	1.000000	-0.272346
INF	-0.301711	-0.223357	-0.360173	0.090828	-0.272346	1.000000

Dependent Variable: RGDP
Method: Least Squares
Date: 01/06/23 Time: 03:40
Sample: 1990 2021
Included observations: 32

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-4388.495	5827.024	-0.753128	0.4581
MBL	0.154543	0.033793	4.573145	0.0001
MBI	2.575850	0.394494	6.529500	0.0000
MBD	92.54053	83.71486	1.105425	0.2791
MBCA	134.1686	15.89970	8.438436	0.0000
INF	-49.27025	54.58408	-0.902649	0.3750

R-squared	0.993619	Mean dependent var	47497.83
Adjusted R-squared	0.992392	S.D. dependent var	51940.53
S.E. of regression	4530.399	Akaike info criterion	19.84237
Sum squared resid	5.34E+08	Schwarz criterion	20.11719
Log likelihood	-311.4779	Hannan-Quinn criter.	19.93347
F-statistic	809.7509	Durbin-Watson stat	1.816751
Prob(F-statistic)	0.000000		