MICROFINANCE INSTITUTIONS AND ECONOMIC DEVELOPMENT IN NIGERIA

by

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Abstract

This study examined the performance of microfinance institutions (MFIs) and its impact in promoting economic development in Nigeria using error correction model. The OLS was used for long-run analysis following findings from the cointegration result that established the existence of a long run equation. The study found a positive relationship between human development index and microfinance loan. The findings suggest that microfinance institutions promote economic growth and social capital formation in Nigeria. The paper therefore recommends that relevant stakeholders should create more awareness to the general public on the importance of microfinance loans to the livelihood of the citizens. It is also recommended that, based on the findings, the CBN should co-opt MFIs in administering specialised funds set aside to improve microcredit access at low interest rate, especially SME Credit Guarantee Schemes to further human development index trajectory in Nigeria.

Keywords: Microfinance, human development index, economic development

JEL Classification: G21, O16, E5

1.0 Introduction

There are increasing agreements in economic literature and amongst policy makers that, microfinance banks play important role in stimulating economic growth and achieving inclusive development in developing countries. This is so because microfinance institutions have been found to identify and administer financial services to the low-income earners who often do not have access to financial services offered by conventional banks due to high transaction/operational cost, high risk involved in extending credit to them, as well as holding little or no tangible assets as collateral for credit. In addition to financial intermediation, many microfinance institutions provide social intermediation services, such as group formation, developing self-confidence and training in financial literacy and management capabilities among members of a group. Thus, the role of microfinance includes both financial intermediation and social intermediation, which is essential for inclusive development through entrepreneurship.

It has been increasingly recognised that entrepreneurial development is crucial in achieving an inclusive structural transformation of any economy, as the development of a vibrant small and medium enterprise sector is considered a critical step to attaining broad-based economic development (Muhanna, 2007). This posture stem from the belief that sustained growth in entrepreneurial base of a country promotes innovation and investment, which in turn, causes job creation, growth in output and entrenchment of competitive strategy. This, thus underpins the reason why the current orthodoxy and strategy through crucial developmental programmes in the Nigerian economy, amongst other things, is geared towards increasing the supply of adequate finance to her retinue numbers of entrepreneurs engaged in small and medium size enterprises across the country.
The establishment of the microfinance institutions in Nigeria stems from the exclusion of the poor from the conventional financial services, which led the government to initiate a broad variety of informal alternative financial services that satisfy the financial needs of low-income earners (Rai, 2016). The financial institutions were designed to provide micro credit to the poor so as to alleviate poverty by the provision of microloans to low-income earners (Reeves & Sabharwal, 2013). Microfinance activities has indeed been considered a concept that allows the poor and low-income earners to have access to financial services and hence the potential abilities to improve social status. Globally, the poor are referred to people whose basic earnings are below the minimum wages and whose sources of income are inadequate to finance their essential needs of food, shelter and clothing (Reeves & Sabharwal, 2013).

Today, the role of microfinance in economic development has taken a center stage in economic planning and strategy refinement across global economies of the world because of its positive spillover benefits to spurring the functionality of small businesses/enterprises, through provision of microcredit facilities. This is because SMEs has gained prominence in our society because of the role they play in metamorphosing the economy. SMEs in Nigeria are seen as the backbone of all economies and are a key source of economic growth, dynamism and flexibility. Small business in Nigeria is constrained of many factors, especially, lack of fund to purchase critical inputs that enhances productivity (Mahmoud 2005).

It is in this regard, that credit interventions of microfinance institutions becomes critical for accelerating growth in domestic output and broadening the welfare contents of the populace. The issuance of a micro-finance policy for Nigeria by the CBN is aimed at expanding financial infrastructure of the country to meet the financial requirements of the poor, low-income groups and micro-entrepreneurs. Serving such groups is expedient for three reasons.

Given the above understanding, the advantage of microfinance therefore, stems from the creation of equal opportunities in the business world, as it functions effectively in poverty alleviation, this is because microfinance has been recognized as a financial and non-financial services institution, with the abilities to improve growth on small businesses operated by the poor people in alleviating poverty (Reeves & Sabharwal, 2013). While studies have analysed the impact of microfinance on economic growth using data from both developed and developing economies, few studies (Abiola, 2011; Apere, 2016) have explored the effects on economic development. Microfinance institutions should be targeted at economic development because unless all sections of society benefit from faster and more economic growth, the social conditions in such a country can deteriorate and lead to violence and chaos. The aim of this paper therefore, to analyse the impact of Nigerian microfinance institutions on economic development between 2008 and 2016.

1.1 Problem Statement

Successive government in Nigeria have countlessly initiated programmes aimed at providing financial services to the unbanked and the active poor in a bid to channel finance to the productive economic units in the low end of the nation’s socio-economic strata. These programmes include Agricultural Development Programs (ADPs), National Directorate of Employment (NDE), Better Life for Rural Dwellers, which was subsequently called Family Support Programmes), the Directorate of Food, Roads and Rural Infrastructure (DFRRI), which were tracked during 1986 to 1999. Other establishments that have also attempted rendering micro-credit services to the
citizens were the rural banking scheme (1977-1990); People’s Bank (1987-1990); Community Bank (1990-2007). The programs had the potentials to improve the economy because it is anticipated to reduce poverty, create employment, and enhance economic development, among others. However, these schemes were confronted with challenges, as such the programmes could not achieve their set objectives and were subsequently scrapped, until the microfinance policy was launched in 2005 (Zulkhibri, 2014).

Microfinance institutions have grown remarkably in terms of number in operation annually, rising by 7.9% to 907 in 2019, depicting its increasing reach to people in the lower pyramid of the society through its intermediating activities, which in turn have grown by 594.9% from N27.79 billion to N192.99billion in 2016 (CBN Annual Reports, various years). Recent data from the United Nations Development Programme (UNDP) on human development reveals that Nigeria has witnessed some noticeable improvements in its human development index. Although, Nigeria is listed amongst countries with low human development profile, the country’s HDI has, however, risen by 14.4% from 0.467 in 2005 to 0.534 in 2018, and slightly below SSA average of 0.541. The expansion in number of MFBs in operation and intermediated credit to members of the society within the reach of the microfinance sector aptly mirrors the rising trend in Nigeria’s human development index (HDI) and as observed from the reported data, it remains unclear whether recent improvements in Nigeria’s HDI can be explained by activities of microfinance institutions, and what measures of microfinance operations in the country spur inclusive development as measured by HDI. This calls for a rigorous empirical analysis to ascertain the extent to which microfinance institutions through their operations drives economic development (proxied by human development index) in Nigeria.

Moreover, studies that ascertain the extent to which microfinance have influenced inclusive growth and development, including its effects on poverty alleviation, particularly in advanced and developing economies is still heavily debated (Mahmoud, 2005; Abiola, 2011; Meisami, 2013). In other words, it remains unclear to what extent the microfinance-HDI nexus holds true in Nigeria. Thus, the question is: Do microfinance institutions really ensure economic development? What is the relationship between microfinance loans and economic development in Nigeria?

Therefore, from the foregoing, this study will attempt to investigate how far the intermediation role of MFI’s and their performance have alleviated the wellbeing of the poor and promoted economic development in Nigeria. This study is aimed at explaining these relationships with the view of ascertaining the extent to which MFI’s promote economic development in Nigeria. Exploring the nature of these relationships would improve policy making and strategy that could stimulate higher economic performance in Nigeria.

2.0 Literature Review

The microfinance scheme is a platform aimed to deliver financial services to the active poor and the unbanked so as to alleviate their standard of living. Wanchoo (2007) defines microfinance as any activity that includes the provision of financial services such as credit, savings, and insurance to low income individuals who either fall below the nationally defined poverty line or fall just above that, with the goal of creating social value. The creation of social value means making efforts in direction to poverty alleviation, enhancing wellbeing chances for the poor by providing capital for micro-enterprise, encourage savings culture of the poor so that current problems and future risks could be curtailed.
Yunus (1999) explained that microfinance entails the means of access to finance by the poor people that allow them to utilize their capacities in favour of lasting development. Ehigiamusoe (2011) also asserted that the use of microfinance does not involve only disbursement and collection of loan repayment and savings, it also refers to a set of flexible organization structures and processes through which provision of essential financial services are offered to low-income earners and small business entrepreneurs on a continuous basis. Microfinance is a general term that explains financial services designed for the low-income earners or to those who do not have access to banking services. The concept encompasses not only the extension of credit to the poor, but also the provision of other financial services (Dasgupta, 2006; Nagayya & Rao, 2009). According to Dasgupta (2006), these financial services mainly comprise deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their microenterprises.

Microfinance has proven to be the most effective and powerful tool for poverty reduction through its provision of capital, social esteem, knowledge, information, empowerment, social capital and market access. Like many other developmental tools, however, it has insufficiently infiltrated the poorer level of society. The poorest from the vast majority of those without access to primary health care and basic education; similarly, they are the majority of those without access to microfinance (Morduch & Haley, 2002). Arabi and Meisami (2013) further argued that microfinance can only empower the poor where the low-income earners are appropriately recognized, and the micro loans are utilized to create job. In that regard, the appropriate recognition of various economic strata of the citizens is crucial to the economic growth of a country. Loan facilities, savings, accessibility to resources of payment and risk safety techniques are evident needs of the populace at large (Saeed, 2014). Since financial services dynamically subscribe to the human and economic growth of a nation, it should result to social safety net and safeguard people from economic distress, thus, the need to provide access to affordable financial services (Krishnakumar & Vijayakumar, 2013). El-Namrouty and Al-thalathini (2013) showed that microfinance is one of the interventions that should be utilized to reduce poverty. For these programs to succeed there must be an evidence of management skills and adequate understanding of financial base for the consumers of the microfinance program.

The concept of accessing microloans at acceptable terms to alleviate the economically active poor has been widely accepted since the introduction of microfinance banking in Bangladesh in the mid 1970’s (Chew et al, 2016). The seeming popularity of this model among developing countries is predicated on poverty reduction prospect it offers. The concept of microfinance encompasses banking for the poor and banking with the poor. Thus, these microfinance schemes open a vista of finance for the poor and unbanked who were denied access to finance from the conventional banks as a result of absence of collateral (Nagayya and Rao, 2009). Microfinance targets the poorest segment of clients. They are self-employed and household-based entrepreneurs.

The conception of banking services that is tailored to the poor is not new; Savings and credit groups have existed for decades in many part of the world (Singh & Bhar, 2016). Traditional savings and credit institutions for the active poor have existed for centuries, offering customers who do not have access to the conventional banks financial services through the way of cooperatives and development finance institutions (Acha, 2012). Historically, the Irish Loan Fund was one of the early micro credit institutions offering loans to the active poor with no security back-up; this was established in the 17th century by Jonathan Swift, by 1840, it had spread all over Ireland (Chew, Tan, & Hamid, 2016). The main aim of the Irish Loan Fund was to make
small loans at short periods with interest. By the 18th century, different types of bigger and traditional savings and credit institutions had emerged in Europe, coordinated mainly among the active poor; these were the People's Banks, Credit Unions, and Savings and Credit Co-operatives (Omorede, 2014).

The traditional savings and credit institutions for the active poor came into existence centuries ago (Soltane, 2012), providing customers who lack access to the conventional bank’s financial services through the way of cooperatives and development finance institutions (Soltane, 2012). The goal of these micro credit institutions for rural finance intervention was generally illustrated in terms of the agricultural sector innovations with objectives to grow business of the rural sector through deploying idle savings, and growing investment through credit, and cutting repressive outdated connections, which are compelled by debts (Aghion, Armendáriz, & Morduch, 2010).

From the inception of the launch of microfinance banking in Bangladesh in the 1970s, many countries have replicated the scheme (Chew, Tan & Hamid, 2016). The 1980s designated a critical moment in the history of microfinance such that MFIs like the Grameen Bank began to provide microloans and savings successfully on extensive level. The MFIs were private enterprises and wholly sustained with no funded subsidies, and an extensive clients outreach (Regassa, & Negash, 2014). The distinction between funded rural loan of the 1950s and 1960s and microloan was that microloan required repayment with interest rate charged on the loan in order to cover the total cost of delivering credit, and tailored to consumers who were reliant on the informal industry for credit (Regassa, & Negash, 2014). The apparent widespread acceptance of the scheme among emerging nations is premised on the likelihood of its ability to alleviate poverty (Singh & Bhar, 2016).

The microfinance scheme was established to offer financial services to economically active poor people that are excluded from accessing financial services from the traditional banks, create jobs, create development of rural area and poverty reduction (Chew et al., 2016). In furtherance to boost economic development, the government of Nigeria initiated the financial inclusion policy in October 2012 by the CBN, to allow an individual, household, or group to have access to suitable financial services or products (Singh & Bhar, 2016). The government policies even directed on mobilizing five percent (5%) of the conventional banks’ profits before tax to small and medium scale businesses so as to boost the microfinance scheme (Anku-Tsede, 2014). Research has shown that the significance of microfinance is that it allows the poor to have access to financial services that the conventional financial system could not provide to enhance and expand their economic activities, promote morale of the poor and assist in boosting economic development on a consistent level (Anku-Tsede, 2014; Chew et al., 2016; Hassan, 2014).

2.1 Evolution of Microfinance in Nigeria

The Nigerian market is confronted with different microloans challenges such as other many emerging markets (Anku-Tsede, 2014). One of the problems is that the traditional banks are not providing and modifying products and services to cater for the needs of the economically active poor in order to empower the poor in Nigeria (Hashim & Dodo, 2015). The traditional banks are extending their services to the affluent; thus, not much is placed on the value the poor place on their choice patronage factors in selecting products of banks (Oyeniyi, 2014).

MFIs have turned out as a reaction to combat unemployment and the inability of the conventional financial institutions to satisfy the requirements of the poor who are regarded as un-bankable (Toindepi, 2016). In Nigeria for instance, since microfinance plays a role in creating employment,
assets and alleviation of poverty, the Government had countless designed several programs to promote access to finance in order to promote the wellbeing of the poor. These programs require appropriate strategies in place to ascertain wide outreach and efficiency (Oghoator, 2015).

Over the years, besides monetary management, the Nigerian government was also confronted with poverty and unemployed people; who had skills, initiatives and are active, but lacked seed capital to engage in productive activities that can generate income (Abdullah & Ismail, 2014). Thus, to boost access to financial services to those who lack accessibility, the Nigerian government initiated programs and schemes that are designed to meet the poor people, and have also captivated differing foreign aid from various multilateral firms such as the World Bank, International Monetary Fund, and others which did not yield significant results, most of the schemes were not successful, thus, did not achieve the intended results and has no substantial measurable outcomes (Obaidullah, 2015). According to Omorede (2014), gross mismanagement and corruption by erstwhile leaders caused the failure of the microfinance schemes initiated by the government.

In order to enhance the flow of financial services to Nigerian rural areas, Government has, in the past, initiated a series of publicly-financed micro/rural credit programmes and policies targeted at the poor. Notable 7 among such programmes were the Rural Banking Programme, sectoral allocation of credits, a concessionary interest rate, and the Agricultural Credit Guarantee Scheme (ACGS). Other institutional arrangements were the establishment of the Nigerian Agricultural and Co-operative Bank Limited (NACB), the National Directorate of Employment (NDE), the Nigerian Agricultural Insurance Corporation (NAIC), the Peoples Bank of Nigeria (PBN), the Community Banks (CBs), and the Family Economic Advancement Programme (FEAP). In 2000, Government merged the NACB with the PBN and FEAP to form the Nigerian Agricultural Cooperative and Rural Development Bank Limited (NACRDB) to enhance the provision of finance to the agricultural sector. It also created the National Poverty Eradication Programme (NAPEP) with the mandate of providing financial services to alleviate poverty. The profiles of some of the poverty alleviating programmes/schemes/establishments in Nigeria are presented in Table 1. However, these schemes were confronted with challenges and some were scrapped, until the microfinance policy was launched over a decade ago, which is also not without its own attendant challenges (Zulkhibri, 2014). In the light of these goals, it became appropriate for the government of Nigeria to understand the prospects and underlying assumptions for attaining these goals besides sustaining the process of required growth. The level of poverty continued to grow higher as a result of the low understanding of the poor that are expected to gain from the program (Agba, et al., 2014). Research revealed that 3.2 million customers in Nigeria have account with MFIs from over 70% of the country’s population of 180 million who lives below the poverty lines (Efobi, Beecroft and Osabuohien, 2014). Accordingly, it is pertinent to conduct a study in order to ascertain the extent to which MFIs have achieved its aim of poverty alleviation, enhancement of financial inclusion and contribution to economic development in Nigeria.

In December 2005, the CBN launched the microfinance regulatory policy framework to promote and boost the accessibility of micro entrepreneurs, the economically active poor, and small income earners to designed financial services that is required to empower and consolidate on their business fortunes (Hassan, 2014). The economic rationale of launching microfinance plan was to encourage all-economic development in the economy (Hassan, 2014). Part of the mandate of the microfinance policy was to alleviate the poor, reduce poverty, create employment, and enhance economic development, among others (Hassan, 2014).
<table>
<thead>
<tr>
<th>S/N</th>
<th>Programme</th>
<th>Main Focus/Objective</th>
<th>Microfinance Component</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>National Accelerated Food Production Programme (NAFPP)</td>
<td>Funding of agriculture.</td>
<td>Low</td>
</tr>
<tr>
<td>2</td>
<td>Nigerian Agricultural and Cooperative Bank (NACB)</td>
<td>Funding of agriculture and cooperatives.</td>
<td>Moderate</td>
</tr>
<tr>
<td>3</td>
<td>Operation Feed the Nation (OFN)</td>
<td>Created awareness of food shortage.</td>
<td>Nil</td>
</tr>
<tr>
<td>4</td>
<td>Green Revolution</td>
<td>Big mechanized farming.</td>
<td>Nil</td>
</tr>
<tr>
<td>5</td>
<td>Back-to-Land Programme</td>
<td>Aggressive graduate involvement in agriculture.</td>
<td>Nil</td>
</tr>
</tbody>
</table>
6 Directorate for Food, Roads & Rural Infrastructure (DFRRI)  
Feeder roads, electricity, portable water and toilet facilities for rural dwellers.  
Nil

7 Nigerian Agricultural Land Development Authority (NALDA)  
Large-scale commercial farming.  
Moderate

8 Better Life for Rural women  
Gender elevation.  
Moderate

9 National Directorate of Employment (NDE)  
Combating mass unemployment.  
Moderate

10 Family Economic Advancement Programme (FEAP)  
Assisting Nigerians in low income group in subsistence agriculture and other micro businesses.  
High

11 National Poverty Eradication Programme (NAPEP)  
NAPEP was targeted at wiping out poverty from Nigeria by the year 2019. NAPEP was structured to integrate four sectoral schemes – Youth Empowerment Scheme (YES), Rural Infrastructure Development Scheme (RIDS), Social Welfare Services Scheme (SOWESS), and National Resources Development and Conservation Scheme (NRDCS).  
High

Source: Culled from Toby and Akani (2014)

2.2 Microfinance Policy in Nigeria

In December 2005, the Central Bank of Nigeria (CBN) introduced a Microfinance Policy Framework to enhance the access of micro-entrepreneurs and low income households to financial services required to expand and modernize their operations in order to contribute to rapid economic growth. The rationale was that no economic development can be achieved without improving access of this segment of the economic strata to factors of production, especially financial services.

The purpose of licensing MFBs within the regulatory framework for financial intermediation in Nigeria is to increase access to financial services for underserved segments of the population. The importance of promoting and regulating MFBs came into focus in 2004/2005 at the time of the tenfold increase in minimum capital for DMBs (from NGN 2.5 billion to NGN 25 billion), introduced as of end-December 2005.

The CBN by the provisions of section 33 (1) (b) of the CBN ACT NO.7 of the 2007 and in pursuance of the provisions of sections 56-60 (a) of the Banks and other Financial Institution Act (BOFIA) No. 25 of 1991 (as amended) in conjunction with the MFBs operating template and revised regulatory and Supervisory Guidelines for Microfinance Banks (MFBs), presents a revised National Microfinance Policy Framework (April, 2011) for Nigerians that would enhance the provision of diversified microfinance services on a sustainable basis for the economically active poor and the low income households. The 2011 microfinance policy framework is a revised version of the 2005 policy framework.

Generally, the microfinance policy provides the window of opportunities for the low income earners, market women, tailors, artisans, welders, etc. to expand existing business, open new businesses and consolidate on existing businesses with access to affordable credit products. The policy also promotes the development of appropriate (safe, less costly and easily accessible)
savings products that would be attractive to rural clients and improve the savings level in the economy.

There are over eight hundred (800) Microfinance Banks across the country owned by individuals, Cooperative societies, Community Development Associations, private corporate entities, NGO-MFIs, foreign investors and among others. One major justification for the introduction of the microfinance policy by the CBN was existence of the huge size of the un-served market by the existing financial institutions. The purpose of licensing MFBs within the regulatory framework for financial intermediation in Nigeria is to increase access to financial services for underserved segments of the population. The importance of promoting and regulating MFBs came into focus in 2004/2005 at the time of the tenfold increase in minimum capital for DMBs (from NGN 2.5 billion to NGN 25 billion), introduced as of end-December 2005. However, a study conducted by Enhancing Financial Innovation and Access (EFInA) in August, 2010 revealed that 39.2 million people representing 46.3 percent of the adults in Nigeria were excluded from financial services. Out of the 53.7 percent that had access, 36.3 percent derived their financial services from the formal financial institutions; while 17.4 percent exclusively patronized the informal sector.

2.3 Concept of Economic Development

Economic development is a process of structural transformation with continuous technological innovation and industrial upgrading, which increase labor productivity, and accompanied improvements in infrastructure and institution, which reduce transaction costs (Lin, 2017). It is the process through which economies are transformed from ones in which most people have very limited resources and choices to ones in which they have much greater resources and choices. Economic development therefore covers almost all areas of economics, though with modifications to reflect the particular situations of developing countries. Based on a review of the literature, we define economic development as the development of capacities that expand economic actors’ capabilities. These actors may be individuals, firms, or industries.

Economic development is a broader concept than economic growth. Development reflects social and economic progress and requires economic growth. Growth is a vital and necessary condition for development, but it is not a sufficient condition as it cannot guarantee development. One of the indicators of economic development is Human Development Index (HDI). The extent to which a country has developed may be assessed by considering a range of narrow and broad indicators, including per capita income, life expectancy, education, and the extent of poverty. In view of the above, this study employs Human Development Index (HDI) to proxy economic development. The concepts of human development and its measure, Human Development Index (HDI) are thus explained in the next subsections of this paper.

2.4 Concept of Human Development

Gross Domestic Product (GDP) is one of the most commonly cited indicator of economic health of a country because it represents the total market value of all finished goods and services produced in the monetised segment of an economy. A country with higher national output is often considered wealthy, amongst other countries with lower GDP growth rate. However, Jacobs and Šlaus (2010) argued that GDP captures only a part of economic welfare because it ignores excludes other dimensions which also matter for well-being. Hence, using GDP only to measure of national productivity and welfare may overly exaggerate actual economic situation, more so due to rapidly changing socio-
economic structure of countries. This drawback is because GDP includes categories of expenditure, such as military spending and general administration, which are not directly related to household income, expenditure and consumption.

Consequently, there are growing interests in finding other indicators to capture the rate of economic performance of countries, especially measures which take into consideration factors that contribute to social progress and welfare. One of such is the human development index (HDI) conceived by the United Nations Development Programme (UNDP), to serve as measure of how well a country has performed, not only in terms of real income per capita, but also incorporates social factors like longevity, measured by life expectancy at birth, and educational attainment, measured by literacy rates and combined mean years of schooling. Thus, HDI looks at three outcomes of development: state of health, level of knowledge and skill, as well as access to resources, measured by income per capita adjusted to purchasing power parity (UNDP, 1998). It is in this regard that some economists considered HDI statistic as a broader measure of economic performance than GDP.

While growth-oriented policies may increase a nation’s total wealth, the translation into ‘functionings and freedoms’ are not automatic. Inequalities in the distribution of income and wealth, unemployment, and disparities in access to public goods and services such as health and education, are all important aspects in measuring overall well-being of a country. The HDI thus, serves as a frame of reference for both social and economic development and the value the index takes value between 0 and 1. Score close to 0 or 1, shows low or high levels of human development, respectively. Meanwhile, a large group of critiques (Chowdhury, 1991; Hicks, 1997) is concerned with the fact that the current HDI presents averages and thus conceals wide disparities in distribution of human development in overall population. However, HDI is still a more powerful indicator of well-being, than the conventional use of gross domestic product, and is increasingly being used as a benchmark to question national policy choices and outcomes, especially with recent methodological improvements in the HDI, using new indicators and functional form (Kovacevic, 2011).

2.5 A Brief Overview of Nigeria’s HDI Dynamics

Development is concerned ultimately with ways of enhancing people’s quality of life, and to achieve this is to improve basic human capabilities (longevity, knowledge and income). This translates to expanding access to health, education and job opportunities. Improvement in basic human capabilities is aptly captured in the human development index (HDI) developed by the UNDP for each countries.

According to the United Nations Human Development Reports (2019), the Human Development Index (HDI) was created to emphasize that people and their capabilities should be the ultimate criteria for assessing the development of a country, not economic growth alone. The HDI can also be used to question national policy choices, asking how two countries with the same level of GNI per capita can end up with different human development outcomes. The HDI is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living. The HDI is the geometric mean of normalized indices for each of the three dimensions.

Figure 2: Human Development Index (HDI)
HDI computation for Nigeria remain among the lowest in the world, revealing slow underlying rate of improvements in three broad components of the index, namely longevity, educational attainment and access to resources. The 2006 HDI placed Nigeria in the 154th position out of 179 countries covered in the annual survey, while Nigeria's 2012 HDI of 0.5 (ranked 152) is above the average of 0.466 for countries in the low human development group and below the average of 0.475 for countries in Sub-Saharan Africa. Although, Nigeria’s human development indices show some improvements during periods from 2005 to 2014 (see Figure 1), HDI figure of 0.525 in 2014 still put the country in 152 position out of 185 countries surveyed, before rising to 0.534 in 2018. HDI figures for relatively prospering economies are relatively closer to 1. For instance countries, like Australia (0.929), Germany (0.905), Singapore (0.866), United States (0.910), Saudi Arabia (0.770) and China (0.687).

Figure 1: Nigeria’s HDI Value, 2005 - 2018

Source: Graphed by Authors but underlying data from HDR various years.
Various factors could be responsible for nature of human development trajectory in Nigeria. The challenge associated with assessing credit due to high prevailing interest rate and poor business environment may hinder growth in entrepreneurial development and employment (Mike, 2010). Some influential studies have observed through empirical studies that resource dependence nations experience slower economic growth, and possibly, poor human development, if it distorts institutional quality and generate macroeconomic uncertainties, as well as civil conflicts (Sachs and Warner, 1995; Artadi and Sala-i-Martin, 2003; Oyefusi, 2007).

The rising growth in Nigeria’s population could portend grave danger to employment and societal welfare, coupled with projected economic growth decline of 2.3% in 2016, due to deterioration in government finances, deepening disruptions in private sector activity and resurgence in security concerns (IMF, 2016). From 2006 until 2011, Nigeria unemployment rate averaged 14.6%, reaching an all-time high of 23.9% in 2011 from a low of 5.3% by end-2006. A huge proportion (78.1%, within the 15-59 age brackets) of the unemployed comprised the youth (Garba and Garba, 2013).

However, the progress in human development has been fairly steady over time in Nigeria and across global regions of the world. This calls for a cautious optimism as it offers important policy options for the country to seek ways of improving on its current ranking in the world, especially macroeconomic policies aimed at reducing the scourges of poverty and inequality. Policy makers should, therefore, institutionalise the process of structural transformation to promote broad based inclusive growth and development.

2.6 Empirical Literature

This subsection attempts to review some empirical studies on the contribution and impact of microfinance institutions on economic development in Nigeria. Abiola (2011) in his study used the financing constraints approach to assess the impact of microfinance on access to credit for micro businesses in Nigeria. The result showed that there is an improved access to loan in locations where MFBs offers more provision of financial services because investing in local micro businesses was less sensitive to availability of internal funds in unconstrained location, than investment in micro businesses in locations where its activities were inadequate or not in existence.

Olowe, Moradeyo and Babalola (2013) studied the impact of microfinance on the growth of small and medium enterprises (SMEs) in Nigeria, and found that financial services offered by the MFBs have favourable significant impact on MSEs growth while loan has a favourable impact on SMEs growth but not statistically significant. That is, the loan tenor is too short to show a significant impact on the SMEs growth. They also found that high interest rate, collateral and frequency of loan repayment could paralyze the growth of SMEs in Nigeria.

On the other hand, Okwoli, Abubakar and Abubakar, (2013) conducted a study on the role of MFBs in rural transformation and development in Nigeria, and explained the performance of MFBs and the risk they are exposed to across various size categories of the institutions. They found that MFBs were generally profitable over recent years. However, the small size MFBs seems to have significant operating inefficiencies. Above all, microfinance banks have performed well in many cases better than the larger banks in managing rural economy. Thus, the study concludes that microfinance policy and programmes are good empowerment measures which if properly managed would go a long way in improving the condition of lives of the rural dwellers.
Ademola and Arogundade (2014) evaluated the impact of microfinance on economic growth in Nigeria, stressing on its primary role of poverty reduction and small scale enterprise financing. Deposit Liabilities, Loans & advances of microfinance banks were used to proxy the activities of microfinance institutions in Nigeria while Gross Domestic Product was used as a proxy for economic growth. Using Ordinary Least Squares method, they found that assets and deposit liability has an insignificant impact on economic growth while loan and advances to the public has a significant impact on economic growth. Thus, the overall significance of the model shows that the activities of the microfinance banks cannot be overemphasized in the pursuance of a sustained economic growth in Nigeria.

Akpan and Nneji (2015) explored the contribution of microfinance banks to the development of small and medium scale enterprises in Nigeria, and the result showed that MFBs contributes considerably to increased enterprising environment by creating conducive business environment and enhance accessibility to finance for small businesses. Variables like loan size, loan duration (financial variables) and networking meetings (non-financial variables) were found to have a positive impact on SMEs. The study thus confirmed the positive contributions of MFBs towards promoting SMEs performance and growth. The study concluded that MFBs has potentials for enhancing the performance of small businesses through participation in micro financing and offering of non-financial services.

Apere (2016) studied the impact of microfinance banks on economic growth in Nigeria over the period of 1992-2013 using error correction model. The results of the study showed that MFB loans and domestic investment has a positive significant effect on the growth of Nigeria’s economy build on the enormity and the level of significance of the coefficient and p-value besides, a relationship exist, in the long-run, between MFB loans, investment and economic growth in Nigeria. The findings imply that MFBs has to increase loans extended to business enterprises in order to generate commensurate economic growth.

Ifionu and Olieh (2016) examined a decade of microfinance banking operations in Nigeria and its impact on economic development spanning from 2005 to 2014 using Deposits and Loans to proxy Microfinance bank operations while Human Development Index (HDI) was used as proxy for economic development. The study showed deposit as a key driver of MFB operations and positively contributes to economic development, while loans showed a negative contribution which might be caused by high interest rates, diversions, and harsh economic conditions that make loan customers have problem in loan repayments.

Furthermore, Tafamel (2019) examined the effect of microfinance institutions on reduction of poverty as well as entrepreneurial activities in Nigeria. The study employed a survey research instrument through the administration of questionnaires to two hundred (200) micro and small-scale business enterprises in Ikpoba Okha Local Government Area of Edo State, Nigeria. The results showed that microfinance institution and poverty alleviation were positively and significantly related while entrepreneurial activity and poverty reduction were positively and insignificantly related. The study recommended that microfinance institutions should be given a conductive environment to operate in order to assist in developing micro and small business enterprises, thereby help mitigate the effect of poverty ravaging the Nigerian society. Moreover, studies like Khalaf (2019), Ugochukwu and Onochie (2017) and Ikpefan et al (2016) also underpinned the relevance of microfinance in poverty reduction and economic development. From
the foregoing, this study is timely and essential to examine whether the microfinance institutions are really addressing these issues, which are some of the reasons for their establishment.

2.7 Challenges Faced by Microfinance Banks

There are numerous challenges hindering the performance of the MFBs, in Nigeria, the challenges the MFBs are faced with are; the uneven spread of MFIs, majority of the banks are located in specific section of the country because investors discern that, that environment would yield them more income; and the erstwhile community banks that transformed to MFBs were still operating like the old regime, with so much inefficiency (NDIC, 2016). In addition, knowledge dearth and lack of skills in micro financing business, with limited support for human and institutional capacity building which grossly affected the performance of the MFBs; and inadequate fund for intermediation as a result of the inability to mobilize savings, business capital, and failure to institute Microfinance Development Fund (NDIC, 2016). These challenges slow the attainment of microfinance objectives which are aimed to expand the financial frontier and stimulate the exploitation and development of economic opportunities in the formal sector through the provision of traditional and even non-traditional banking services.

2.8 Regulatory Efforts

The regulatory authorities have been fully supportive of MFBs since their inception to ensure that the pronounced policy objectives of the scheme are achieved and that the MFBs are sustainable and profitable for economic development for the benefits of all. The revised microfinance policy recognizes the existing informal institutions so as to bring them within the supervisory purview of the CBN that is aimed to enhance monetary stability, and expand the financial infrastructure of the country to meet the financial requirement of the micro, small and Medium Enterprises (MSMEs). In addition, the CBN launched a National Financial Inclusion Strategy (FIS) on 23rd October 2012 aimed at reducing financially excluded adult Nigerians from 39.7% to 20% by year 2020. As part of Financial Inclusion Strategy, the CBN earmarked ₦220 billion for lending to MSME with 60% to women empowerment through rural microcredits (CBN, 2013; Singh & Bhar, 2016).

3.0 Research Methodology and Data

This study employed broadly descriptive, correlations and regression analysis to explain the relationship between microfinance indicators and metrics and human development index, a measure of economic development. The microfinance institutions’ indicators employed include total deposit and total loans. Both banks deposits and loans contribute to the intermediation role of the banking institutions which in turn lead to economic development. Bank deposits consist of money placed into banking institutions for safekeeping. These deposits are made of deposit accounts such as savings accounts, checking accounts and other variants of deposit accounts. They are liabilities owed by banks to depositors. These deposit liabilities are then given as loans to the investors at a cost of interest. The banks loans are an important asset of banks since they generate revenue from the interest that the borrowers pay on the loan. Thus, the a-priori expectation is that banks loans and economic development are positively related.

Furthermore, for the purpose of this study, Human Development Index (HDI) represents the indicator to measure economic development. Our choice for employing HDI, rather than economic growth as a measure of economic development, was driven by the fact that human development includes other crucial issues not captured in economic growth measurement, like access to quality education and health care facilities. This paper employed the annual data for
Nigeria, covering the periods 1998-2016. Although the variables are in annual form, the data are however spliced into quarterly data on Eviews software. The essence of splicing the data is to overcome the problem of data paucity and thus to extend the data set for proper data analysis.

This study employed the error correction modelling technique to integrate the dynamics of the short-run (changes) with long-run levels adjustment process. The three major steps involved are unit root test, which involves testing the order of integration of the individual series under consideration. This study employed both Phillips Perron (PP) and Augmented Dickey Fuller (ADF) test for this test. The second step is the cointegration test, which involves testing the presence or otherwise of cointegration between the series of the same order of integration. This study employed Johansen test to carry out this test. The last step is the error-correction modelling (ECM) which is carried out when cointegration is proven to exist.

Therefore, this study employed descriptive, correlation analysis and ECM to explain the extent to which microfinance operations since its inception has broadened human development in Nigeria. For this study, relevant data were obtained from the NDIC’s annual reports. Human Development Indicator (HDI) was employed as proxy for economic development, while other variables, such as deposit and total loan of microfinance banks were employed to capture microfinance institutions’ performance. Findings from this study would have broad-based implications for policy making and consequently, the adoption as well as implementation of informed strategy to boosting human development in Nigeria. Lastly, the model incorporates control variables which are known to influence economic development. They include secondary school enrolment, gross fixed capital formation and GDP growth. Thus, the empirical model for this study is as follows:

Long-run Model Specification:

\[ HDI = \alpha_0 + \alpha_1 \ln(DEPOSIT) + \alpha_2 \ln(LOAN) + \alpha_3(SSE) + \alpha_4GFC + \alpha_5GDP + \epsilon_i \]  

Where: HDI = Human Development Index; SSE= secondary school enrolment; GFC= Gross Fixed Capital Formation; and GDP= GDP growth.

### 4.0 Empirical Result

#### 4.1 Descriptive Statistics and Correlation Analysis

From the correlation statistics, human development has a unique positive correlation with all metrics used to measure microfinance performance, indicating its relevance to human development in Nigeria. The result aptly shows that human development (HDI) respond favourably to microfinance operations/activities. This is very crucial for policy formulation. Specifically, human development has a relatively high correlation with deposit mobilization drive of microfinance institutions in Nigeria, suggesting that as households intensifies their savings culture, there is higher tendency for human welfare and confidence to improve. This is premised on the fact that when households save, there is an accrued interest on every savings, which could also translate into improving their welfare. Further, the result could also show that a rise in the deposit base of the microfinance banks would increase the availability of loans to entrepreneurs, thereby boosting lending culture of the institutions. Invariably, this can encourage investment and thus reduce the scourges of unemployment.

The importance of microfinance banks in promoting fund availability for investment is evident in the positive correlation between loan and human development. As households receive loans from
microfinance banks for productive activities especially for business development and expansion, their welfare is increased through profit accrued from the business activities.

**Table 1: Correlation Analysis**

<table>
<thead>
<tr>
<th></th>
<th>HDI</th>
<th>LOAN</th>
<th>DEPOSIT</th>
<th>SSE</th>
<th>GCF</th>
<th>GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDI</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LOAN</td>
<td>0.561</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DEPOSIT</td>
<td>0.441</td>
<td>0.284</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SSE</td>
<td>0.345</td>
<td>0.362</td>
<td>0.412</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>INFL</td>
<td>0.459</td>
<td>0.537</td>
<td>0.512</td>
<td>0.469</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>0.598</td>
<td>0.287</td>
<td>0.495</td>
<td>0.387</td>
<td>0.445</td>
<td>1.000</td>
</tr>
</tbody>
</table>

*Source: Author’s Computation*

Furthermore, the descriptive summary of the variables is presented in Table 2. On the average, the deposit of the microfinance institutions that submitted their returns during the period under review was N90.8 billion. The deposit ranges among the institutions from N39.10 billion to the maximum deposit of N205.00 billion. However, the standard deviation of 52.80 billion depicts a high level of disparity in the values of the deposit among the banks. Furthermore, mean loan values in the microfinance industry during the period under review was N160 billion and it ranges between N38.30 billion and N700 billion. The high disparity between the minimum and maximum values is further corroborated by the large value of standard deviation. This further reflects the level of risk taking behaviour among the insured institutions in the industry.

**Table 2: Descriptive Statistics**

<table>
<thead>
<tr>
<th></th>
<th>DEPOSIT (BILLION)</th>
<th>LOAN (BILLION)</th>
<th>HDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>90.80</td>
<td>160.00</td>
<td>0.510</td>
</tr>
<tr>
<td>Median</td>
<td>68.70</td>
<td>55.00</td>
<td>0.514</td>
</tr>
<tr>
<td>Maximum</td>
<td>205.00</td>
<td>700.00</td>
<td>0.527</td>
</tr>
<tr>
<td>Minimum</td>
<td>39.10</td>
<td>38.30</td>
<td>0.481</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>52.80</td>
<td>201.00</td>
<td>0.015</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>SSE</th>
<th>GCF</th>
<th>GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>28.56</td>
<td>18.98</td>
<td>2.1</td>
</tr>
<tr>
<td>Median</td>
<td>31.25</td>
<td>12.52</td>
<td>2.9</td>
</tr>
<tr>
<td>Maximum</td>
<td>56.21</td>
<td>37.69</td>
<td>3.56</td>
</tr>
<tr>
<td>Minimum</td>
<td>8.56</td>
<td>8.98</td>
<td>1.98</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>25.23</td>
<td>28.96</td>
<td>3.8</td>
</tr>
</tbody>
</table>

*Source: Author’s Computation*

**4.2 Trend Analysis**

The trend of total deposit of banks mirrors that of human development, as shown in Figure 3. Even though the banks’ total deposit was trending in a spiraling manner during the period under review, it was however increasing towards the manner in which that of human development was
moving. This also supports the positive relationship between them earlier informed by the correlation analysis.

**Figure 3: Trend of Total Deposit of Banks and HDI**

![Trend of Total Deposit of Banks and HDI](image)

*Source: NDIC*

Finally, the trend of total banks’ loans and human development is shown Figure 4. Even though the early years of the microfinance banking in the country started with low level of credit disbursement to customers, the latter years have witnessed an increase. However, the positive relationship between the two variables is still reflected in the Figure. This is in line with the a-priori expected as we expect that there should be positive correlation between total banks’ loans and human development.

**Figure 4: Trend of Total Banks’ Loans and HDI**
4.3 Unit Root and Cointegration Test

This study employed both Phillips Perron (PP) and Augmented Dickey Fuller (ADF) test to examine the properties of the variables employed. As shown in Table 2, all the variables are not stationary at level. However, they are stationary after taking their first difference. Thus, they are integrated of order one, that is, they are $I(1)$. This thus justifies the need to employ error correction model (ECM) in analysing the entire model.

Since all the variables are of order one, the next step is to investigate whether the variables have a long run relationship. Using the Johansen cointegration test, we conclude that there is a long run relationship among the variables.

### TABLE 2: UNIT ROOT TEST

<table>
<thead>
<tr>
<th></th>
<th>PHILLIPS PERRON TEST</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>DEPOSIT</td>
<td>HDI</td>
</tr>
<tr>
<td>At Level</td>
<td>t-Statistic</td>
<td>1.183</td>
<td>2.496</td>
</tr>
<tr>
<td>At First Difference</td>
<td>t-Statistic</td>
<td>-1.658*</td>
<td>-2.772*</td>
</tr>
<tr>
<td>Overall Decision</td>
<td></td>
<td>I(1)</td>
<td>I(1)</td>
</tr>
</tbody>
</table>

**Notes:** (*) significant at the 10%; (**) significant at the 5%; and (***) significant at the 1%

<table>
<thead>
<tr>
<th></th>
<th>PHILLIPS PERRON TEST</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SSE</td>
<td>GCF</td>
<td>GDP</td>
</tr>
<tr>
<td>At Level</td>
<td>t-Statistic</td>
<td>1.569</td>
<td>2.598</td>
</tr>
<tr>
<td>At First Difference</td>
<td>t-Statistic</td>
<td>-2.698</td>
<td>2.569*</td>
</tr>
</tbody>
</table>

Source: NDIC
Overall Decision | I(1) | I(1) | I(1) |
---|---|---|---|
Notes: (*) significant at the 10%; (**) significant at the 5%; and (***) significant at the 1%

### TABLE 3: JOHANSEN COINTEGRATION TEST RESULTS

<table>
<thead>
<tr>
<th>Trace Test</th>
<th>Maximum Eigenvalues Test</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ho</td>
<td>$H_A$</td>
</tr>
<tr>
<td>$r \leq 0$</td>
<td>$r &gt; 0$</td>
</tr>
<tr>
<td>$r \leq 1$</td>
<td>$r &gt; 1$</td>
</tr>
<tr>
<td>$r \leq 2$</td>
<td>$r &gt; 2$</td>
</tr>
<tr>
<td>$r \leq 3$</td>
<td>$r &gt; 3$</td>
</tr>
<tr>
<td>$r \leq 4$</td>
<td>$r &gt; 4$</td>
</tr>
<tr>
<td>$r \leq 5$</td>
<td>$r &gt; 5$</td>
</tr>
<tr>
<td>$r \leq 6$</td>
<td>$r &gt; 6$</td>
</tr>
</tbody>
</table>

Notes: $r$ represents number of cointegrating vectors

### 4.4 Error Correction Model

Bearing in mind of the nature of the data employed as ascertained in the previous section, this study employed Error Correction Model (ECM) approach to carry out the empirical analysis. This is specifically employed to integrate the dynamics of the short-run (changes) with long-run levels adjustment process.

The parsimonious model, presented in Table 4, shows that about 65 percent of the variation in the dependent variable, which is human development index, is explained by the set of independent variables. The error correction term (ECT) has the appropriate negative sign which is statistically significant at 1 percent. The negative percentage of the ECT shows that the short run disequilibrium values adjust to their long run equilibrium values by 12.9% per period.

According to the Table also, the current value of loan exerts a negative impact on the measure of economic development, that is, human development index. However, the lagged value of loan has a positive effect on the index. This shows that while microfinance loan may not have immediate impact on the beneficiary, the effect is positive and significant in the following year. This signals that the beneficiaries of microfinance loans engage in economic activities whose gestation period is not short term and thus the loan may not have much impact on the business immediately. However, there is a positive impact after a year lag value. This could also inform the microfinance banks’ policy making on the moratorium period given to the beneficiaries of microloans.

As shown in Table 5, the banks’ capital has a positive and significant long run impact on the livelihood of the citizens, especially their customers. This also suggests the need for the microfinance banks to be recapitalised so as to boost their capital and hence their impact on the citizens.
Similarly, the lagged value of deposit exerts a positive and significant influence on human development index during the period under review. This is also in line with the a-priori expectation as the deposits in the past period would be employed by the financial institutions to generate loans to investors in the current period.

**TABLE 4: PARSIMONIOUS MODEL (ECM)**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>D(HDI(-1))</td>
<td>0.254*** (0.054)</td>
</tr>
<tr>
<td>D(LOAN)</td>
<td>-0.0056*** (0.003)</td>
</tr>
<tr>
<td>D(LOAN(-1))</td>
<td>0.0031** (0.0002)</td>
</tr>
<tr>
<td>D(DEPOSIT (-1))</td>
<td>0.0004*** (0.001)</td>
</tr>
<tr>
<td>D(SSE)</td>
<td>0.256** (0.005)</td>
</tr>
<tr>
<td>D(GDP (-1))</td>
<td>0.349* (0.001)</td>
</tr>
<tr>
<td>D(GCF(-1))</td>
<td>0.235 (0.001)</td>
</tr>
<tr>
<td>ECT(-1)</td>
<td>(-0.129)*** (0.02)</td>
</tr>
<tr>
<td>C</td>
<td>0.00024 (0.0001)</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.65</td>
</tr>
<tr>
<td>Durbin Watson Statistic</td>
<td>2.01</td>
</tr>
</tbody>
</table>

Notes: (*) significant at the 10%; (**) significant at the 5%; and (*** ) significant at the 1%; Standard error in parenthesis

**TABLE 5: LONG-RUN MODEL**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

NDIC QUARTERLY  VOLUME 35, Nos. 3 & 4  SEP. & DEC., 2020
5.0 Conclusion and Policy Implications of Findings

5.1 Conclusion

This study examined the performance of microfinance institutions (MFIs) and its impact in promoting economic development in Nigeria. This study employed error correction model (ECM) to explain the relationship between microfinance indicators and metrics and human development index, a measure of economic development. The ECM was used to determine this relationship and correct the discrepancies between short-run disequilibrium and the long-run equilibrium. The study found out the existence of a significant long run relationship between human development index (HDI) and MFIs metrics which include loans and deposit. The findings therefore reinforce the fact that MFIs can be deployed effectively towards promoting the wellbeing of the people, and therefore, play a significant role designing poverty alleviation strategy/programmes. The fact that the results from this study shows positive impact on human wellbeing suggests that microfinance institutions is a tool for promoting economic growth and social capital formation in Nigeria, premised on MFBs contribution in promoting entrepreneurship as it effectively narrows the resource-gap challenges of small businesses. It is in this regard, that this study suggests that microfinance institutions have the potentials to stimulate the performance of small businesses through steady access to micro financing and provision of other financial services.

Despite the numerous challenges identified earlier, this study identified several areas where opportunities exist for the microfinance banks. The growing entrepreneurial awareness, increasing government interest, large unbanked rural area and high population of poor people were identified as some of these opportunities. The paper argues that with proper regulatory interventions and commitment of other stakeholders to the core mission of microfinance banking, its challenges can be addressed and its prospects enhanced. This paper therefore concludes that the future of microfinance banking in Nigeria is bright.
6.2 Recommendations and Policy Implications

The model employed in this study shows that the activities of the MFIs cannot be overemphasized in the quest for sustainable economic development in Nigeria. It is therefore recommended that the regulatory authorities should create an enabling environment capable of supporting the microfinance banks in financial services delivery. To ensure that MFIs contribute significantly to the growth of the economy, the following recommendations are hereby proposed:

1. The regulation and monitoring of the activities of MFBs should be intensified to address identified weaknesses;
2. MFIs should be encouraged to create the needed awareness of their activities to desiring entrepreneurs especially in rural and semi-urban areas; and
3. Since microfinance loan is a major factor that impact on the human development index, the CBN should co-opt MFIs in administering specialised funds set aside to improve microcredit access at low interest rate, especially SME Credit Guarantee Schemes.

References


