

The Impact of Microfinance on Economic Growth in Nigeria

¹Ayodele Ademola E. and ²Kayode Arogundade

¹Department of Banking & Finance,
University of Ado-Ekiti, Nigeria.
²Department of Business Administration
Ekiti State University, Ado-Ekiti

Corresponding Author: Ayodele Ademola E.

Abstract

This paper examines the impact of microfinance on economic growth in Nigeria. Emphasis is made on the primary role of microfinance institutions in Nigeria which is poverty reduction and small scale enterprise financing. Assets, Deposit Liabilities, Loans & advances microfinance banks were used proxy the activities of microfinance institutions in Nigeria while Gross Domestic Product was used as a proxy for economic growth. Using secondary data and applying ordinary least square of multiple regressions, it was revealed from the findings that Asset base and deposit liability has an insignificant impact on economic growth while Loan and Advances to the public has a significant impact on economic growth in Nigeria. However, the overall significance of the model shows that the activities of the microfinance banks cannot be overemphasized in the pursuance of a sustained economic growth in Nigeria. It is therefore recommended that the government should create an enabling environment capable of supporting the microfinance banks in microcredit delivery.

Keywords: microfinance, economic growth, loan and advances, microcredit, asset base and deposits.

INTRODUCTION

Over the years, microfinance has emerged as an effective strategy for enhancing economic growth across developing countries. Micro, small and medium enterprises are turning to Microfinance Institutions (MFIs) for an array of financial services. Credit allocation is a powerful instrument to fight poverty, increase productivity, output and enhance economic growth. Access to financial services enable poor households to move from everyday-for-survival to planning for the future, investing in better nutrition, their children's education and health and empowering women socially (Ehigiamusoe, 2005). With the advent of Grammen Bank and other such programs micro-credit obtained a new identity, a new meaning and a place in development literature. It is no more a mere concept; it is now a worldwide movement. Microfinance is acknowledged as one of the prime strategies to achieve the Millennium Development Goals (MDGs).

OVERVIEW OF MICROFINANCE IN NIGERIA

In Nigeria, micro-financing is not a new phenomenon as evidenced by such cultural economic activities as "Esusu", "Adashi", "Otataje", etc, which were practiced to provide funds for producers in our rural and urban communities. What operates at present however is the effort of governments in Nigeria to modernize micro-financing in rural and urban communities to improve the productive capacity of the rural and urban poor, enhance their economic standing which alleviates the level of poverty and

enhance economic growth and development in the economy.

After failed trials in Directorate of Food, Road and Rural Infrastructure (DFRRI), Rural Banking by commercial Banks and even People's Bank programme (1986), the government of the Federal Republic of Nigeria took the bull by the horns by enacting legislation for the establishment of community banks (now microfinance institutions). To complement government efforts, over the years, a lot of NGOs has formally been licensed to operate as micro finance institutions. Some existing NGO microfinance institutions were transformed and Universal Banks were encouraged to engage in microfinance services. Of recent, microfinance banks regulation and supervisory guidelines were inaugurated.

The dismal performance of the conventional finance sectors triggered the advocacy of micro financing by policy makers, practitioners, and international organizations as a tool for economic growth. Since its emergence, the number of microfinance institutions around the world has proliferated at a fast pace after the 1970s. Today there are more than 7000 micro – lending organizations providing loans to more than 25 million poor individuals around the globe (Mohammed and Hasan, 2008). The Nigerian microfinance industry has come a long way. It boasts of the entire four well - known models in the industry. A CBN study (2001) identified 160 registered Microfinance Institutions (MFIs) in

Nigeria with aggregate savings worth N99.4 million and outstanding credit of N649.6 million, indicating huge business transactions in the sector (Anyanwu, 2004). Specifically, as at the end of 2004, the micro-finance intermediation activities of community banks shows a total mobilized deposits of N21.4 billion, asset base of N34.2 billion and loans and advances to the tune of N11.4 billion (CBN, 2005). Currently microfinance banks are of two forms, as all licensed community banks in Nigeria that met CBN guidelines have been transformed to Microfinance Bank. The two forms of microfinance Banks (MFBs) are; (i) Microfinance Banks (MFBs) licensed to operate as a unit. These are hitherto community banks licensed to operate branches and/or cash centres subject to meeting the prescribed prudential requirements and availability of free funds for opening branches/cash centres. The minimum paid-up capital for this category of banks is N20 million for each branch. The branching should be gradual within a local council before it spreads to other local councils and state. (ii) Micro-Finance Banks licensed to operate in a state. These are MFBs licensed to operate in all parts of the state at once without recourse to gradual coverage (spread) as in unit MFBs. Branches are opened subject to meeting the prescribed prudential requirements and availability of free funds. The minimum paid-up capital for this category of banks is N1 billion. About 600 Community Banks have migrated to Microfinance Banks by January 1st, 2008 and there are several others that have been licensed to operate. (CBN, 2008).

LITERATURE REVIEW AND CONCEPTUAL ISSUES

Microfinance is the supply of loans, savings and other basic financial services to the poor. These owners of micro and small enterprises require a diverse range of financial instruments to meet working capital requirement, build assets, stabilize consumption, and shield themselves against risks (Ehigiamusoe, 2005). Financial services include working capital loans, consumer credit, savings, pensions, insurance, and money transfer services. In practice, microfinance is much more than disbursement, management and collection of little bits of loans.

In a more comprehensive style, (Ehigiamusoe, 2005), stressed that microfinance refers to “flexible processes and structures by which financial services are delivered to owners of microfinance enterprise on a sustainable basis”. Microfinance recognizes the peculiar challenges of microenterprises and of their owners. It recognizes the inability of the poor to provide tangible collateral and therefore promotes collateral substitution. Disbursement and repayment are structured to suit credit need and cash flow pattern of small businesses (Aderibigbe, 2001).

Kimotho, (2005) defined microfinance simply as the provision of very small loans (micro –credit) to the poor, to help them engage in new productive business activities and/or to grow/expand existing ones. However, overtime, microfinance has come to include a broader range of services. These include mainly credit, savings opportunities, insurance and money transfer, as practitioners came to realize that the poor, who lacked access to traditional formal financial institution, needed and required a variety of financial products to achieve meaningful improvement in their business activities.

Microfinance is not a charity despite its appellation as “poverty lending”. Primarily, microfinance seeks to create access to credit for the poor who ordinarily are locked out of financial services in the formal financial market for reason of their poverty, which is lack of command over assets. It therefore places obligation on the borrowers for proper utilization and complete repayment of borrowed amounts even at commercial interest rates (Kpakol, 2005).

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

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

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

information) were consistently significant determinants of agricultural credit repayment.

Marr (2002) documents the use of communal, the case of communal banking programme in Peru where group dynamics are engendered by the joint-liability micro-being of participants. In her case study, tension between financial and organizational sustainability has been built up to such a scale that it has produced a fundamental instability of the systems, leading to the fracturing of group and greater exclusion of the poor.

Scholars like Liew (1997), Cornford (2000) and Mathins (2003) have argued that gaining access to credit in order to form micro entrepreneurial activities mostly does not address the needs of poor clients, instead the clients may be forced to 'invent' a micro business plan in order to access sums of money, which they can repay but which may not necessarily be used for any income-generating purpose. Focusing on the Pacific, Liew (1997) in particular notes that, in rural communities and especially among the disadvantaged, the demand for cash (micro credit) is primarily to meet emergencies, for schooling of their children, to meet traditional and religious obligations and for other basic necessities. He maintains that the demand for cash is rarely for starting a micro-enterprise or income-earning activity, especially, where there is no access to markets and/or business opportunities, then low-income clients are likely to find micro-credit of little use. He therefore concludes that for this category of clients, access to saving rather than micro credit may be perceived as far more useful.

On the contrary, Mathins (2003) observes that micro credit (an extension of very small loans to unemployed and poor entrepreneurs as well as other living in poverty that are not considered bankable) is helpful in engaging people in self-employment project that enable them to generate an income. This is so as most poor people gain little access to financial products and services of commercial banks that usually prefer to deal with large commercial interest and state owned enterprises thereby reluctantly ignoring the poor people in Nigeria as in less developed countries.

MICROFINANCE POLICY MEASURES AND INSTITUTIONS IN NIGERIA

Some policy measures and institutions have been put in place by the government and non-governmental organizations (NGO) to facilitate the operation of microfinance scheme in Nigeria.

1. Microfinance Policy

a. Microfinance Policy Measures

In Nigeria, the formal financial system provides services to about 35% of the economically active population, while the remaining 65% are excluded

from access to financial services. These 65% are often served by the informal financial sector, through Non-Governmental Organisation Microfinance Institutions (NGO – MFIs), money lenders, friends, relatives, and credit unions. The non-regulation of the activities of some of these institutions has serious implications for the Central Bank of Nigeria's (CBN) ability to exercise one aspect of its mandate of promoting monetary stability and a sound financial system.

A microfinance policy which recognizes the existing informal institutions and brings them within the supervisory purview of the CBN would not only enhance monetary stability, but also expand the financial infrastructure of the country to meet the financial requirements of the Micro, Small and Medium Enterprises (MSMEs). Such a policy over the years have been aimed at creating a vibrant microfinance sub-sector that would be adequately integrated into the mainstreams of the national financial system and provide the stimulus for growth and development. Over the years, the federal ministry of finance in conjunction with the Central Bank of Nigeria (CBN) have formulated various policies aimed at stimulating the operation of microfinance institutions in Nigeria.

Some of the notable microfinance policy strategies conjured by ministry of finance and Central Bank of Nigeria (CBN) over the years include:

- (i) License and regulate establishment of Microfinance Banks (MFBs).
- (ii) Promote the establishment of NGO-based microfinance institutions.
- (iii) Promote the participation of government in microfinance industry by encouraging states and local governments to devote at least one percent of their annual budgets to micro credit initiatives administered through MFBs.
- (iv) Promote the establishment of institutions that support the development and growth of microfinance service providers and clients.
- (v) Strengthen the regulatory and supervisory framework for MFBs.
- (vi) Promote sound microfinance practice by advocating professionalism, transparency and good governance in microfinance institutions.
- (vii) Increase in the capital base of community banks (now microfinance institutions) from N250,000 to N20m and recently to N1.0 billion for Microfinance banks licensed to operate in a state.

b. Microfinance Policy Targets

The targets of the above policy measures are as follows:

- 1) To cover the majority of the poor but economically active population by 2020

- thereby creating millions of job and reducing poverty.
- 2) To increase the share of micro-credit as a percentage of total credit to the economy from 0.9 percent in 2005 to at least 20 percent in 2020; and the share of micro-credit as a percentage of GDP from 0.2 percent in 2005 to at least 15 percent in 2020.
 - 3) To promote the participation of at least two thirds of the states and local governments in micro-credit financing by 2015.
 - 4) To eliminate gender disparity by improving women's access to financial services by 5% annually; and
 - 5) To increase the number of linkages among universal banks, development banks, specialized finance institutions and microfinance banks by 10% annually.

c. Policy Objectives

The specific objectives of microfinance policy over the years include:

- (1) Make financial services accessible to a large segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services;
- (2) Promote synergy and mainstreaming of the informal sub-sector into the national financial system;
- (3) Enhance service delivery by microfinance institutions to Micro, Small and Medium Entrepreneurs;
- (4) Contribute to rural transformation, and
- (5) Promote linkage programmes between universal/developments banks; specialized institutions and microfinance banks.

PARTICIPATING INSTITUTIONS IN MICROFINANCE ACTIVITIES IN NIGERIA

The participating institutions in the practice of microfinance in Nigeria can be categorized thus,

Informal/Traditional Microfinance Institutions

The practice of microfinance in Nigeria is culturally rooted and dates back several centuries. The traditional microfinance institutions provide access to credit for the rural and urban, low – income earners. They are mainly the informal Self- Help Groups (SHGs) or rotating Savings and Credit Associations (ROSCAS) such as “Esusu”, “Adashi”, “Otataje”, etc. Other providers of microfinance services include savings collectors and co-operative societies. The informal financial institutions generally have limited outreach due primarily to paucity of loanable funds (Annan and Kofi, 2006). In order to enhance the flow of financial services to Nigeria's rural areas, government has, in the past, initiated a series of publicly-financed micro/rural credit programmes and policies targeted at the poor. This led to the establishment of formal microfinance institutions.

Formal/Modern Microfinance Institutions

These include:

Universal Banks

These are formal financial institutions currently engaged in microfinance services, either as an activity or product and do not wish to set up a subsidiary, but are required to set up a department/unit for such services and shall be subjected to the provisions of the MFB regulatory and supervisory guidelines.

Community Banks (Microfinance Banks)

These are licensed community banks in Nigeria that met CBN guidelines which transformed to Microfinance Bank. There are two categories of Microfinance Banks (MFBs).

(i) Micro-Finance Banks (MFBs) licensed to operate as a unit.

These are hitherto community banks licensed to operate branches and/ or cash centres subject to meeting the prescribed prudential requirements and availability of free funds for opening branches/cash centres. The minimum paid-up capital, this category of banks is N20 million for each branch. The branching should be gradual within a local council before it spreads to other local councils and state.

(ii) Micro-Finance Banks (MFBs) licensed to operate in a state.

These are MFBs licensed to operate in all parts of the state at once without recourse to gradual coverage (spread) as in unit MFBs. Branches are opened subject to meeting the prescribed prudential requirements and availability of free funds. The minimum paid-up capital for this category of banks is N1 billion.

Other participating institutions include:

Non-Governmental Organisation Micro Finance Institutions (NGO – MFIS)

The present policy in Nigeria recognizes the existence of credit only membership – based microfinance institutions under the supervisory purview of the Central Bank of Nigeria, such institutions engaged in the provision of microcredit to their targeted population and forbidden from mobilizing deposits from the general public. The registered NGO – MFIs are required to forward periodic returns on their activities to the CBN. Lift above poverty organisation (LAPO) in Benin City is an example of NGO – MFIs. NGO – MFIs that wish to obtain the operating license of a microfinance bank are required to meet the specified provisions as stipulated in the regulatory and supervisory guidelines. Special microfinance schemes operated by some state governments fell under this category.

Public Sector Poverty Alleviation Agencies

The MFB policy recognizes the roles of public sector MFIs and poverty alleviation agencies such as the

National Poverty Eradication Programme (NAPEP) and Small and Medium Enterprises Equity Scheme (SMEEIS) in the development of the sub-sector. Such agency performs the following functions.

- (i) Provision of resources targeted at difficult to-reach clients and the poorest of the poor;
- (ii) Capacity building;
- (iii) Development of MFIs' activities nationwide;
- (iv) Collaborating/partnering with other relevant stakeholders; and
- (v) Nurturing of new MFIs to a sustainable level.

Special Microfinance Schemes

In Nigeria today, some governmental agencies across the various tiers of government operate special credit schemes for traders, farmers, young school leavers, graduates and artisans. These are credit outlets that may not be registered and hence not supervised by CBN. They are directly under the control of the government agency that midwives them.

Donor Agencies

Donor agencies offer free or subsidized funds, donations or technical assistance for the development of the microfinance industry in Nigeria. They include bilateral and multilateral institutions, NGO and missionaries with a proper orientation. The services provided by donor agencies include grants, donations, technical assistance, etc. The donor agencies, in conducting their microfinance activities complied with the relevant provisions of this policy. The target clients for donors' support may include; MFIs, NGO, regulatory and other relevant agencies. However, for the purpose of leveraging the evolving microfinance initiative, donors are expected to direct most of their assistance to licensed MFIBs to ensure an orderly resource injection, transparency and synergy.

THE ROLE OF MICROFINANCE BANKS IN THE NIGERIAN ECONOMY

The importance of Microfinance banks in Nigeria's economy cannot be over-emphasized; this is because it plays a vital role in the financial intermediation process and also in the lives of the low income earners whom constitute over 70 per cent of the Nigerian population. Some of these important roles include:

Credit Delivery: This is perhaps one of the most important roles of Microfinance banks, as the loans extended are used to expand existing businesses and in some cases to start new ones. According to CBN (2008) microfinance loans granted to clients is increasing from 2007 to date and most of it goes to financing microenterprises in rural areas. Ketu, (2008) observed that microfinance banks have disbursed more than N800 million micro credits to over 13,000 farmers across the country to empower their productive capacities. As such it is expected that agricultural output will increase with the increase in

funding. The entrepreneurial capacity of the farmers will thus improve.

Boosting Small Scale Enterprises/Agriculture:

About 60 percent of poor people in the country live in the rural areas and 80 percent of them are farmers and artisans (NBS, 2005). Microfinance banks have therefore been the main sources of funding to these less disadvantaged groups. Rural people are empowered through microfinance loans and services, and hence small scale agricultural practice and microenterprise is developed. Governments go into co-operatives to partner with the microfinance banks to raise bulk loans to be disbursed to the beneficiaries, in so doing the banks are increasing and sustaining the number of people going into small businesses.

Employment Generation:

Agriculture and microenterprises contributes immensely to job creation, and are of particular interest to all Microfinance Bank in rural areas. Microfinance banks have so far engaged in extending credits and other services to many rural enterprise and hence generating employment and promoting entrepreneurship. The promotion of employment in rural areas by microfinance banks covers the following areas; blacksmithing, gold-smithing, watch repairing, bicycle repairing, basket weaving, barbing, palm wine tapping, cloth weaving, dyeing, food selling, carpentry, brick-laying, pot-making, leather works and drumming. Even though found in urban areas, these industries are more prominent in the rural areas.

Improvement in Skill Acquisition:

Improvement of the condition of women through the provision of, skills acquisition and adult literacy is another role played by microfinance banks. This is done through building capacities for wealth creation among enterprising poor people and promoting sustainable livelihood by strengthening rural responsive banking methodology and the introduction of simple cost-benefit analysis in the conduct of businesses. In most cases a profit sharing agreement is entered between a bank and an entrepreneur and new methods and innovations are passed to the prospective entrepreneur by the banks professionals, while at the end of the production period the proceed is being shared and the entrepreneur if so wishes can continue on his own after the necessary skills and production techniques are acquired. (Umar, 2008)

Facilitates Poverty Alleviation:

Employment and income generation are important aspects of poverty alleviation efforts. Microfinance banks have accelerated the operation of government poverty alleviation programmes and in doing that promising entrepreneurs are supported and new ones emerged. The federal governments National poverty Eradication Programme (NAPEP) and National Economic Empowerment and Development Strategy (NEEDS) to mention a few aimed at achieving the United Nation's Millennium Development Goals

(MDGs) by 2015 required these microfinance institutions for success. The success of these programmes and projects for advancement of the MDGs are linked with the promotion of entrepreneurs in rural areas and subsequent reduction in the level of poverty (Ketu, 2008).

CHALLENGES FACING MICROFINANCE BANKS IN NIGERIA

(i) **High Operating Cost:** Small Units of services pose the challenges of high operating cost, several loan applications to be processed, numerous accounts to be managed and monitored, and repayment collections to be made from several locations especially in rural communities.

(ii) **Repayment Problem:** Loan default is a major threat to microfinance banks' sustainability; it is the deadly "virus" which afflicts the operation of the banks. It demoralizes staff and deprives beneficiaries of further valuable services.

(iii) **Inadequate Experienced Credit Staff:** Micro financing is more than dispensing loans, to be viable, microfinance banks require experienced and skilled personnel. As a young and growing industry, there is a dearth of experienced staff in planning, product development and effective engagement with clients.

(iv) **Problem of illiteracy:** which affects record keeping and decision-making ability of borrowers and consequently affects their relationship with the banks.

MICRO FINANCE MODELS

Micro finance models are replete in the literature. However, there are basically formal and informal models of purveying micro credit to the target group (Aryeetey, 1995).

The Informal Model

The informal model is built around group concept. The model works in a situation where groups whose commitment to savings and credit are weak and look up to donor sponsored credit. While this works better with a group that voluntarily comes together to form a revolving savings and credit association, it develops managerial problem where the groups are not cohesive and not voluntary (Besley, coate and Loury 1993).

(i) The **Grammen Bank** experience started with the group concept which is 'informal lending to the poor'. It was started to assist landless people in Bangladesh to obtain credit, which could not be obtained through the formal commercial banks credit facilities. The program was successful because the groups were cohesive (landless) and voluntarily formed. The program has since been linked to formal micro credit model. It operates using the modality of collective guarantees, close supervision and peer pressure from other members of the Grammen group. The model had been quite successful as a bank for the poor and as a social movement based on principles of

awareness and training, which has facilitated active participation of poor.

(ii) **Non Government Organization (NGO)** approach is also grouped as informal model as it tends to adapt the Grammen principles and usually are gender specific and sectorially motivated. There are women groups, farmers union, traders union etc. The high interest rate was not fixed by the formal institution but by the village assemblies. The assemblies meet to decide on the composition and responsibilities of credit committees, the interest rate and the types of savings instruments. Although, the Ghana and Gambian programmers operate as an informal credit model, the quality of service could be compared to the financial market.

(iii) **Esusu:** Esusu is a revolving loan scheme in Nigeria and entrenched in most West African countries operating as an informal micro-credit programme. The group formed to operate the revolving schemes are voluntarily. Members make fixed contributions of money at regular intervals. At each interval, one member collects the entire contributions from all. Every member takes a turn until the cycle is completed, and then it starts again. For people who take their turn late, esusu functions as a savings mechanism. The esusos are very strong program that have assisted the target group to alleviate poverty, particularly among market women in rural/urban markets.

The Formal Model

The formal micro- finance model is built around formal financial institutions such as the commercial banks, rural/village/community bank etc. Most of the formal institutions that purvey credit to the poor had not performed optimally. The credit need of the poor has been found to be very small compared to what the formal model can possibly attend to and also the reoccurring problem of no collateral. The formal microcredit operators have found that per-client costs are high and expensive to reach groups of client physically and in part because poorly developed infrastructure increases the expense of delivering even basic needs. These peculiar challenges form the basis of proffering alternatives strategies to providing financial services to the grassroots by formal financial institutions.

THE LINKAGE MODEL

The framework for linking informal savings collectors to the formal institutions formed the basis of the breakthrough in micro financing. In view of the banks' readiness to acquire more information about the Informal Sector and making serious efforts at strengthening group schemes encouraged the successful turnaround of micro-credit programs. An example is the recent merger of the Nigerian Agricultural and Cooperative Bank (NACB), Peoples Bank of Nigeria and Family Economic Advancement Program (FEAP)

to form Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB).

Also the current Bankers Committee initiative which is supported by the CBN, for banks to set aside 10% of their profit before tax for equity investment in small scale industries will be tangential to alleviating poverty through the lending window or through joint ventures.

In Ghana, the framework for linking informal savings collector to the largest commercial bank was done by the collectors forming a registered association with which the bank deals.

The linkage that has been made with the new institution NACRDB should be enhanced by designing policy to overcome the observed obstacles such as distrust, inadequate knowledge about informal agents and prejudice, all of which create a risky environment for formal banks linking up with informal micro-credit activities.

DONORS MODEL

Donors have played a very strong role in the micro-credit program, particularly international donors such as UNDP, through the NGOs. The alternative micro-credit delivery model proposed by Umoh and Ito (1997) called "The Ekpuk (family) model worked perfectly well within an extended family structure, particularly proven successful in some villages in Akwa Ibam State. However, this system of credit delivery need to be encouraged to work through formal credit institutions as much as possible, such as the community banks and NACRDB. It will help to support the development of strong non bank financial institutions with less risk of default.

METHODOLOGY

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

Model specification

A simple model that tends to capture the activities of the microfinance banks in Nigeria between the period of 1992 – 2007 is adopted.

The model for the study is specified as

$$GDP = \beta_0 + \beta_1 AST + \beta_2 DPL + \beta_3 LOA + \mu_1 \dots (1)$$

Where

GDP = Gross Domestic Product

AST = Assets of microfinance banks

DPL = Deposit Liabilities microfinance banks

LOA = Loans & advances microfinance banks

β s = parameters to estimate, μ_1 is a white noise or error term.

DISCUSSION OF FINDINGS

The estimated regression with t-statistics of individual parameter in parenthesis is given as

$$GDP = 107037.8 + 0.37 AST - 2.37 DPL + 6.05 LOA$$

(35.92) (0.1052) (-0.4534) (1.2032)

$R^2 = 0.7950$
F statistics = 15.516

The equation above shows the estimated regression equation used to analyse the impact of microfinance on economic growth in Nigeria. It shows that asset (AST) of microfinance has positive impact on economic growth. An increase in asset base of micro finance banks in Nigeria will leads to 0.37 unit increase in gross domestic product. This implies that strong capital base is necessary for microfinance banks to perform its expected roles in the economy. The assets base serves as a barometer to determine the long run operational tendency of microfinance banks.

It also shows that deposit liability (DPL) has a negative impact on economic growth in Nigeria. A percentage increase in deposits of customers tends to reduce gross domestic product by 2.37 units. This means that excessive mobilization might tends to reduce the working capital of small and medium scale enterprises since they are the major clients of microfinance banks in Nigeria. This will in turn affect the survival of these firms thereby affecting economic growth negatively. This is also supported by the trade off between the short run and long run impact of savings. Savings in the short run tends to reduce the disposable income of the saver hence has a negative impact on aggregate demand.

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

The t-statistics which is used to measure the statistical significance of the individual variables shows that only LOA is statistically significant while AST and DPL were not statistically significant. The test is carried out at 0.15 level of significance.

The R^2 which measures the explanatory power of the model is estimated to be 0.7950. This means that about 79.5% systematic variation in GDP is jointly explained by all the three explanatory variables while 19.5% is attributed to other variables not included in the model. This is further supported by the statistical significance of the F-statistics which was statistically significant at 0.01 level. Hence, the overall model is

statistically significant in analysing the impact of microfinance on economic growth.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

It is revealed from the findings so far that Asset base and deposit liability has an insignificant impact on economic growth while Loan and Advances to the public has a significant impact on economic growth in Nigeria. However, the overall significance of the model shows that the activities of the microfinance banks cannot be overemphasized in the pursuance of a sustained economic growth in Nigeria. It is therefore recommended that the government should create an enabling environment capable of supporting the microfinance banks in microcredit delivery. The central bank of Nigeria through its regulatory framework should increase the asset base of microfinance institutions.

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