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Microfinance Credit and Nigeria's Economic Growth

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ABSTRACT

Microfinance institutions provide loans, savings and other financial services to low income earners and the poor of the society, thereby creating jobs and enhancing the growth of rural areas. Microfinance has become a revolutionary mechanism used in fighting poverty in most developing countries. However, micro- finance institutions in Nigeria have not made significant progress in the programs and policies of alleviating poverty in the society. Data on the exogenous and endogenous variables were collected from CBN statistical bulletin and analyzed via the use of OLS. It was found that microfinance credit has significant effect on the economic growth of Nigeria. This study recommends that microfinance banks in Nigeria should be encouraged by the regulators to increase the quantum of microfinance credits to the poor economically active citizens and to the small and medium enterprises.

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 micro-finance institutions (MFLs) for an array of financial services. Credit allocation is a powerful instrument to fight poverty, increase productivity, output and enhance economic growth. In this light, Conroy (2003) opined that microfinance provides an array of financial services to the poor and low income households who have no access to financial institutions (Conroy, 2003).
Access to financial services enable poor households to swap positions from the poverty-stricken life of lack that they live to a relatively better life in which they can bring into being ideas hitherto neglected for lack of funds, plan for the future and enjoy a higher standard of living. Anyanwu (2004) agrees with this posit, and describes microfinance as the act of providing loans, savings and other financial services to low income earners and the poor of the society. 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 was no

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more a mere concept; it became a worldwide movement. Microfinance is acknowledged as one of the prime strategies to achieve the Millennium Development Goals (MDGs).

Microfinance credit and economic growth have a nexus that cannot be overemphasized. This is because the growth of economy is dependent on the availability of liquidity (in terms of small credit niche) to small and medium scale enterprises.

Statement of the Problem

Micro credit support is seen as the new separate strategic lifeline to the advancement of the business cycle and the aggregate level of market: As an off-shoot of the financial system management, and a revolutionary mechanism to poverty reduction management, the Nigerian government established the Microfinance Banking (MFB) in Nigeria under the administration of Former President Olusegun Obasanjo in order to make funds available for micro and small scale enterprises for business start up and expansion. However, micro- finance banks in Nigeria have not made any significant progress in the programs and policies of alleviating poverty in our society. Micro-finance banks in Nigeria are yet to gain reasonable grounds that would enable them play the redemptive role that is expected of them.

As such there is a mismatch between the growth of the Nigerian economy and the growth of microfinance banks: there is therefore a need to study why this gap exist

Research Question

The research question formulated to guide this study is what is the effect of microfinance credit to economic growth in Nigeria?

Objective of the Study

The specific objective of this study is to examine the effect of microfinance credits on economic growth in Nigeria.

Statement of Hypothesis

H_0^1: Microfinance credit has no significant effect on the economic growth of Nigeria.

Concept of Microfinance Credits

Microfinance is the supply of loans saving 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, and stabilize consumption. And shield themselves against risks (Chiginmusoe. 2003). Financial services include waiting capital loans, consumer credit, and savings. Pensions, Microfinance is much more than disbursement.

In a more comprehensive style, Ehigiamusoe (2005) stressed that microfinance refers to "flexible processes and structures by which financial service are delivered to owners of microfinance enterprise on a sustainable basis". Microfinance recognizes the peculiar challenges of microenterprises and of the owners. It recognizes the inability of the poor to promote tangible collateral and therefore promote collateral substitution. Disbursement and repayment pattern of 'small businesses (Aderibigbe, 2001).

Kimotha, (2005) defined microfinance simply as the provision of very small loans (micro -credit) to the poor, to help them engage in new productive business activities and/or to grow/expand existing once. 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.

According to Obasi (2009), "Microfinance banking is a micro credit support services of banking operations that is concerned with small unit fund collection, allocation, administering, and management, for socio-economic growth, poverty alleviation on benefiting societies and political tranquility."

According to Dandana and Nwele (2011), "microfinance banking service that is well implemented pm important role in modern society, as it provides micro credit loans to small and medium scale farmers and enterprises. It reduces poverty growth level and creates an enabling environment for social and political tranquility. Because microfinance lending when properly managed benefits the poor rural farmers, small and medium scale enterprises, artisans, et cetera, it helps to aid economic growth of its beneficiaries and their society through poverty reduction. Microfinance programmes that are well channeled help to improve economy, so, if the principles and ethnics of microfinance banking are followed in implementations in Nigeria, economy will grow and the poverty profile of Nigeria would reduce properly.

Concept of Economic Growth

Economic growth is often measured in terms define production within economy, the Gross Domestic Product (GDP) as well as the rate of physical capital accumulation among other possible measures. Majority of scholars accept economic as an increase in the level of national income and output in a country. According to Nnanna (2004), it implies an increase in the net national product in a given period of time. He explained that economic growth is generally referred to as a quantitative change in economic variables, normally persisting over successive period. He added that the determinants of economic growth are availability of natural resources, rate of capital formation, capital output ratio, technological progress, dynamic entrepreneurship and other factors.

Oluitan (2010) sees economic growth as a steady process by which the productive capacity of the economy is increased over time to bring about rising levels of national output and income. Jhingan (2006) viewed economic growth as an increase in output. He explained further that it is related to a quantitative sustained increase in the country's per capita income or output accompanied by expansion in its labour force, consumption, capital and volume of trade. The major characteristics of economic growth are high rate of productivity, high rate of structural transformation, international flows of labour, goods and capital. From the synthesizing insights of these definitions, economic growth in this work is defined as a sustained increase in national income or output of a nation. Thus, an economy is said to be growing if there is a sustained increase in the actual output of goods and services per head.

Economic growth has been a major objective of successive Nigerian governments. Ajayi (1995) noted that during the colonial era, the focus was on the provision of physical infrastructure in the belief, in line with the prevailing economic ideas, that the facilities would induce the private investments that would produce the desired growth. After independence the government became more directly involved in promoting economic growth. The thinking was to mobilize needed domestic resources for investment in some preferred sectors. This brought banks/non-bank as financial intermediaries are expected to provide avenue for people to save or invest incomes not expended on consumption. It is from the savings accumulated that they are expected to extend credit facilities to entrepreneurs and other industrialists (Onoh, 2002). Many of the financial institutions that were in existence notably the banking institutions did not share in the Vision of financing local enterprise because they were foreign owned. This gave rise to the establishment of indigenous financial institutions with a mandate to encourage local investors and hence foster economic growth. Unfortunately many of the financial institutions failed thus hindering their contribution to the economy (Ekezie, 1997). One primary reason

that accounted for the high rate of failures of these institutions was that they operated in an unregulated financial environment.

Review of Empirical Literature

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 noted that in some communities, 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 maintained 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: As such, low-income clients are likely to find micro-credit of little use, He therefore concluded that for this category of clients, access to savings rather than micro credit would be more useful.

On the contrary, Mathins (2003) observed that micro credit (an extension of very small loans to unemployed and poor entrepreneurs as well as others living in poverty that are not considered bankable) is helpful in engaging people in self-employment that enable them to generate an income. This is so as most poor people hardly gain access to financial products and services of commercial banks as they prefer to deal with the middle income class, the wealthy, with large commercial ventures and with state owned enterprises thereby ignoring the financial needs of the poor people in the society.

A major objective of microfinance, as put forward by Otera (1999) is to create an institution that delivers financial services to the poor who are ignored by the formal banking sector. In line with this, Adamu (2007)

observed that microfinance institutions in Nigeria have grown phenomenally, driven largely by the expansion of microfinance institutions into the informal sector and the reluctance of commercial banks to fund emerging microenterprises.

Recognizing the intermediating capacities of microfinance institutions and tracing their theoretical base to the Gap thesis, Ezirim, Adebayo and Ogunbiyi (2008) explored the operational environment, scope of' operations, products and constraints to their operations in Nigeria. The study argued that Nigerian microfinance institutions have limited capital and deposit mobilization capacities relative to the established and more sophisticated competing commercial banking institutions. Further constraints include scarcity of skilled personnel, relatively lower level of education and poor banking habits of their clients (in terms of low savings habit and discouraging loan repayment culture). Of relevance also, are their high operational costs and the prohibitive constraints imposed by high cost of modern day technology needed to drive financial services relative to their available capital resources.

Akinboyo (2007) examined the potentials of microfinance institutions drawing from experiences of other countries. The study traced Nigerian government's efforts at providing microcredit opportunities for the enterprising poor. Employing two-stage regression technique within a quadratic equation framework, the study found that in the first or take-off stage of microfinance banking, poverty was observed to have increased, though at a declining rate with increase in micro credits. In the second stage of the study which started from the year 2001, persistent increases in disbursed micro credit facilities are observed to have significantly lowered the poverty index in Nigeria. Consequently, the study called for policy measures to establish microfinance institutions in every community in Nigeria.

Oluyornho (2011) examined the contributions of microfinance banks to Nigeria's economic growth and employed credits disbursed by the microfinance institutions as a variable for its operational activities. The study employed the Ordinary Least Squares (OLS) regression technique and that Nigeria's microfinance banking operations had some effect on the nation's economic growth. Consequently, it was recommended that microfinance institutions channel a high proportion of their credits to the productive and real sectors of the economy.

Sharma and Pun (2013) investigated the empirical relationship between microfinance banking operations and India's economic growth. Applying correlation and OLN regression techniques on Indian data between the period 2006/7 and 2011/12, the study found a high correlation coefficient of 0.96 showing that microfinance credits had a significant positive relationship with India's gross domestic product over the period of study.

Theoretical Framework

The works of Shaw (1973) and Mckinon (1973), largely demonstrated the supply-leading roles of financial institutions (microfinance) in the provision of credit facilities that substantially advanced the growth of output thereby, alleviating poverty with respect to the enterprising poor. In a later study, Patrick (1976) provided an enhanced view of financial institutions in a two-'way capacity exhibiting both supply-leading and demand-flossing roles in the economic growth process. In this dual functioning role, financial institutions function to induce and service economic growth respectively. In the same manner, Shaw (1976) provides support for financial liberalization policy measures as opposed to repressive financial policy thrusts thus, creating the most enabling environment by financial organizations to contribute to economic growth.

Of further relevance are the Gap and Exigency theories respectively. Nwankwo (1985) demonstrates that while the Gap thesis argues that the accelerated growth of microfinance institutions arose from the funding gap created by negligence on the part of conventional commercial banks for micro credit ventures, the Exigency thesis on the other be traced to the urgent need perceived b various national governments to jump-start and also, accelerate their economic growth process by empowering the enterprising poor.

Research Design

This study will employ ex-post facto research design because this study will rely hearty on secondary data that have already been provided by Central Bank of Nigeria and National Bureau of Statistics.

Method of Data Collection

The study shall make use of secondary source of data in eliciting the required information needed for this research. The secondary source shall be collected from Central Bank of Nigeria statistical bulletin and National Bureau of Statistics report for the period of 2006-2015.

Procedure for Data Analysis and Model Specification

The data for this study will be analyzed using ordinary least simple regression analysis. The model for this study is specified below::

$$RGDP = ß_0 + ß_1 MCR + e$$

where RGDP = Real Gross Domestic Product

MCR = Microfinance Credit

$ß_0 + ß_1$ = Coefficient of the independent variable

e = Error Term

Data presentation

Table 1 contains data on the real gross domestic product of Nigeria and Microfinance credits for the period 2006 to 2015.

Table 1: Data on Real GDP and Microfinance Credit for the period 2006 to 2015

Year	Real Gross Domestic Product	Microfinance Credits
2006	18,564.59	16,450.20
2007	20,657.32	22,850.20
2008	24,296.33	42,753.06
2009	24,794.24	58,215.66
2010	54,612.26	52,867.50
2011	62,980.40	53,319.90
2012	71,186.53	80,127.86
2013	80,222.13	85,044.00
2014	89,043.62	114,070.00
2015	94,144.96	121,020.00

Source: *Central Bank of Nigeria Statistical Bulletin*

Test of Hypothesis

H_o^1: Microfinance credit has no significant effect on the economic growth of Nigeria

H_A^1: Microfinance credit has significant effect on the economic growth of Nigeria

Table 2 contains the regression result for the test of hypothesis.

Dependent Variable: REALGDP
Method: Least Squares
Date: 10/14/16 Time: 11:06
Sample: 2006 2015
Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
MICROFINCREDIT	0.774811	0.121841	6.359216	0.0002
C	3941.716	8866.654	0.444555	0.6684
R-squared	0.834846	Mean dependent var		54050.20
Adjusted R-squared	0.814202	S.D. dependent var		29826.03
S.E. of regression	12856.31	Akaike info criterion		21.93791
Sum squared resid	1.32E+09	Schwarz criterion		21.99843
Log likelihood	-107.6896	F-statistic		40.43963
Durbin-Watson stat	1.413204	Prob(F-statistic)		0.000218

Source: Computed Eviews Result, 2016.

Decision Rule: The p-value approach is used in analyzing the regression result. The decision rule is: If the p-value is less than or equal to the stated level of significance of 5%, reject H_0 otherwise, do not reject $H_{0.}$

The probability of the null hypothesis is 0.0002 and is less than 0.05. As suc hypothesis H_0^1, that microfinance credit has no significant effect on the growth of Nigeria is rejected at the at the at the 5 percent level of significance

The estimate coefficient of microfinance credit (0.774811) shows that a unit change in microfinance credit will cause a 77.4811 percent increase in Real GDP

The coefficient of determination (R^2) value of 0.83486 or 83.486 percent variation in Real GDP is caused by the independent variable (Microfinance credit). This implies that the residual of 16.514 percent is due to other factors not considered in the model, as accounted for by the stochastic term (U_i).

There is some degree of autocorrelation in the first regression equation as Durbin-Watson statistic (1.4132404) is less than 2.0.

DISCUSSION OF FINDINGS

The findings of this study that microfinance credit has a significant effect on economic growth in Nigeria collaborates those of Akinboyo (2007) and Oluyornho (2011) who examined the potentials and contributions of microfinance institutions on the economic growth of Nigeria. Akinboyo's study traced government's efforts at providing microcredit opportunities for the enterprising poor and employed two-stage regression technique within a quadratic equation framework. The study found that in the first or take-off stage of microfinance banking, poverty was observed to have increased, though at a declining rate with increase in micro credits. In the second stage of the study which started from the year 2001, persistent increases in disbursed micro credit facilities are observed to have significantly lowered the poverty index in Nigeria. Consequently, the study called for policy measures to establish microfinance institutions in every community in Nigeria. Olobomho (2011) had similar findings with the above and recommended that microfinance institutions channel a high proportion of their credits to the productive and real sectors of the economy.

The availability of microfinance credits tended to boost business activity, increased investment, and created income in the period under review; As such if more funds are available for the economically active poor for investment purposes, new businesses and firms will emerge while the existing one will expand their scale of operations, creating more jobs and adding economic value which will in turn increase aggregate output.

CONCLUSION

From the findings, this study concludes that there exists a positive significant effect of microfinance credits on economic growth in Nigeria. By implication, the growing Nigerian economy currently provides significant range of business opportunities which the microfinance institutions can tap with appropriate products. As a developing economy, various federal government policy initiatives towards making the private sector the engine of economic growth and employment exist, all of which lend valuable support and opportunities for microcredit operations.

RECOMMENDATION

This study recommends that microfinance banks in Nigeria should be encouraged by the regulators to increase the quantum of microfinance credits to the poor economically active citizens and to the small and medium enterprises. As such, the government should create an enabling environment capable of supporting the microfinance banks in microcredit delivery.

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