THE IMPACT OF MICROFINANCE BANKS ON NIGERIA ECONOMY (1992-2014)

BY

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NOVEMBER, 2015

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A THESIS SUBMITTED TO THE DEPARTMENT OF BANKING AND FINANCE, SANUSI LAMIDO SANUSI COLLEGE OF BUSINESS AND MANAGEMENT STUDIES AND SUBMITTED TO THE SCHOOL OF POSTGRADUATE STUDIES AND RESEARCH IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF PHILOSOPHY (M.Phil.) IN BANKING AND FINANCE OF IGBINEDION UNIVERSITY OKADA EDO STATE

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DECLARATION

I, **STANLEY OSAYEMWENRE EDOBOR,** do hereby declare that this thesis is entirely my own work and composition. The work embodied in this thesis has not been submitted in candidature for any degree and is not concurrently being submitted for any other degree. All references made to works of other persons have been duly acknowledged.

……………………..………….…………….   ….…………………….
STANLEY OSAYEMWENRE EDOBOR   DATE

CERTIFICATION

We certify that this work was carried out by **STANLEY OSAYEMWENRE EDOBOR** in the Department of Banking and Finance, College of Business and Management Studies of Igbinedion University, Okada. Edo State.

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Dr. Sunday Aguwamba Date
Supervisor

__________________________ ____________________

Dr. Raph Adeghe Date
Head of Department
Banking and Finance

DEDICATION

This project work is dedicated to God Almighty who gave me the strength, power and inspiration to complete this work.

ACKNOWLEDGEMENT

The production of this research work is combined efforts. In this regard I wish to express my sincerely gratitude to all that is concerned throughout the course of this project.

I am most grateful to God Almighty who gave me strength and skill to forge ahead for better tomorrow in spite of all odds, difficulties, trials and temptations. I say may the name of the MOST HIGH GOD BE PRAISED.

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Abstract

This research work examined the impact Microfinance Banks on the Nigerian economy for the period of 1992 to 2014. It used secondary data sourced from the Central Bank of Nigeria Statistical bulletin publications, journals, and the National Bureau of Statistics. The ordinary least square (OLS) method was used to analyze the data of the thesis. The OLS method was used to test the variables of the work: Shareholders' fund, Investment and loans to deposits. The result revealed that Shareholders' fund, Investment and Loans to deposits contributed to the Nigerian economy positively. The study reached a conclusion that Microfinance Banks have a positive relationship with the Nigerian economy represented by Gross Domestic Product (GDP). It also recommended that the Shareholders' fund, Investment and Loans to deposits should be increased in order to enhance the performance and sustainability of Microfinance Banks and, hence the Nigerian economy.

CHAPTER ONE

INTRODUCTION

1.1. Background to the Study.

In the 1990s the Federal Government of Nigeria brought to channel much needed Micro credits to small and medium scale enterprises (SMEs) by setting up People's Bank of Nigeria. The bank failed. The small and medium scale enterprises became worse off, as their only access to a line of credit ceased. Many depositors lost their hard-earned money. In 1992, the Community Bank act, 1992 was enacted to address credit needs of community based small scale enterprise sector. The Community Banks were initially supervised by the National Board for Community Banks to ensure proper focus. However, a spate of failures hit many of these Community Banks. To arrest this ugly trend Community Banks failures, the Central Bank of Nigeria (CBN) had to intervene and took over the supervision and regulation of Community Banks, in order to ensure more professional touch and effectiveness in supervision.

The poor, but economically active segment of the population of the country has long been financially excluded from access to credits due to incessant failures in the effort to meet their needs. The poor generally lack what it takes to access credits from the Money Deposit Banks and other banks. They lack both collateral securities to guarantee loan, and the wherewithal to meet other conditions usually demanded by the conventional banks for credits. For instance, equity contribution. Realizing the fact that Microfinance Banks could make the economy thrive much better, various governments all over the world have adopted Microfinance strategy. This trend perhaps informed CBN's Microfinance policy framework launched in December 2005. This policy ushered in the era of Microfinance Banking operations as an answer to the delimma of channeling credits to the poor. Licensing regime for Microfinance Banks (MFBs) then began.

The concept of Microcredit, the extension of small loans without any collateral, based on joint liability was pioneered by Dr. Muhammed Yunus in 1976 in Bangladesh. The remarkable outreach of this movement in Bangladesh (which presently covers not only credit but also a number of financial and non-financial services) has shown that extending credit and financial services to the poor is feasible and profitable, access of low income earner or poor to credit is recognized as an important strategy in achieving the Millennium Development Goals (MDGs). The World Development Report of 2000/2001 widely recommended the Microcredit for poverty reduction and as a social safety net for the low income earners of the developing countries, (World Development Report, 2001).

It would be observed that, despite the presumed developments in the Nigerian economy, the country is still largely being regarded as a developing country (Onyema,2006), More so, its industrial growth is not quite impressive.

Before the emergence of formal Microfinance institutions, informal micro finance activities flourished all over the country. Traditionally, Microfinance in Nigeria entails traditional informal practices such as local money lending, rotating credit and savings practices, credit from friends and relatives, government owned institutional arrangements, poverty reduction programme etc (Lemo, 2006). The Central Bank of Nigeria Survey in 2001 indicated that the operations of former Microfinance institutions in Nigeria are relatively new, as most of them never registered after 1981.

Before now, Money Deposit Banks traditionally lend to medium and large enterprises which are judged to be credit-worthy. They avoided doing business with the poor and their Micro enterprises because the associated cost and risks are considered to be relatively high (Anyanwu, 2004).

The Federal and State governments have recognized that for sustainable growth and development, the financial empowerment of the rural areas is vital, being the repository of the predominantly poor in society and in particular the SMEs. If this growth strategy is adopted and the latent entrepreneurial capabilities of this large segment of the people is sufficiently stimulated and sustained, than positive multipliers will be felt throughout the economy. To give effect to these aspirations various policies have been instituted over time by the Federal Government to improve rural enterprise Action capacities. (Olaitan, 2006).

In view of this, the impact of Microfinance Bank on the Nigeria economy started showcasing itself. With the initiative of Microfinance, rural areas are opportuned to grow and develop as loan and fund are easily given to rural farmers and entrepreneurs. Jobs opportunities were created since there is avenue for lending and investing.

1.2. Statement of Research Problem

There are so many problems and challenges that hinder the functionality of the Microfinance Bank in carrying out their major role of improving economic growth and development in Nigeria.

Therefore this study tries to find out the extent that Microfinance Banks have contributed to the Nigeria economy through the areas of:

i. Investment

ii. The profitability

iii. The capital formation

1.3 Objectives of the Research Study

The main objective of this research work is to investigate the impact of Microfinance Banks on the Nigerian economy for the period of 1992 to 2014.

The specific objectives of the study are as follows:

i. To investigate the ways Microfinance Banks have contributed to the Investment opportunities in Nigeria

ii. To determine the profitability of Microfinance Banks to the Nigeria economy.

iii. To ascertain the extent to which Microfinance Banks have contributed to capital formation of the Nigerian economy

1.4 Relevant Research Questions

The relevant research questions considered for the purpose of this research study include the following:

i, Do Microfinance Banks contribute to the investment opportunities in Nigeria?

ii. Do Microfinance Banks profitability contribute to the Nigerian economy?

iii. Does the capital of Microfinance Banks have any impact on the Nigerian economy?

1.5 Statement of Research Hypotheses

The following hypotheses will be tested:

H_o: Microfinance Banks do not contribute to the investment opportunities in Nigeria.

H_o: Microfinance Banks profitability does not contribute to the Nigerian economy

H_o: Microfinance Banks capital does not have any impact on the Nigerian economy.

1.6 Significance of the Research Study

This study is essentially significant in that it is directed towards evaluating the impact of Microfinance Banks on the Nigerian economy especially the areas of investment, profitability and capital formation which is aimed at measuring economic standard.

i. Social-economic substance which is the ability to basic needs
ii. Self esteem which implies the ability to see and regard one's personality with respect as well as self confidence with hope..
iii. Freedom from servitude which means being able to choose what one wants.

Owing to the fact that researcher has aimed at pinpointing the ways in which Microfinance Banks can help in the revamping of the nation's economy, the finding of this research work will be of great help to most developing countries who may wish to toe the part of Nigeria in Microfinance Banks development.

It will also serve as a reference point for future researchers who in one way or the other will try to unveil the role and impact of Microfinance Banks to the Nigerian economy.

1.7 Scope and Limitations of the Research Study

The scope of the research study is subjected around the framework of Microfinance Bank in Nigeria vis-à-vis its contribution to the investment, profitability and capital formation to the Nigeria economy in line with Central Bank of Nigeria code as a standard to measure the compliance performance of Microfinance Bank. This research study covers from the period of 1992 to 2014.

During the course of the research, a lot of obstacles were encountered.

Thus, the uncooperation of most people working in the library and other offices where the researcher needed to get materials posed great problem to the researcher. Some of the staff do not feel safe letting me have access to some materials while others will charge me more than double cost of Photostat before I can get what I wanted.

It also took great strength to convince the staff that the materials, information and data collected will be treated with great confidentiality and are purely academic.

Financial constraint is another limitation to this work which is as a result of high cost of transportation fare to the areas of study to gather data, combined with the cost of materials to carry this work to conclusive end.

1.8 Definition of terms and Key Concepts of the Research Study

Impact

According to the advanced Oxford learner's dictionary, impact is the powerful effect that something has on somebody or something.

Finance

In a lay man's definition, finance can be seen as the capital involved in starting a business. It may be to start a new business or expand already existing business.

Microfinance

Microfinance as the name implies is the provision of small sizes of financial services to the low income clients in form of small loans to enable them start a business or expand an existing business. This types of loan is usually offered without collaterals to the client who may be an individual or group of individuals or co-operative societies.

Micro Credit

Microcredit is the provision of credit either in cash or kind to individuals or group of persons for an agreed purpose to be paid in agreed terms. It is a one way approach of extending small loans either in cash or in kind to the low income and enterprising poor.

Micro Finance Institution (MFI)

Asekome (2009). A micro finance institution is an organization that provides financial services targeted to the poor and low income earners. It is a financial institution that may or may not be out to maximize profit but assists the poor and low income persons to have access to credit facilities without the stringent conditions of collateral security and complicated legal documentations.

Microfinance Bank (MFB)

According to the Central Bank of Nigeria, a Micro Finance Bank may be construed as a company licensed to carry out the business of providing Microfinance services, such as savings, loans, insurance, money transfer and other financial services that are needed by economically poor, micro-small and medium enterprises within the permissible activities (CBN 2005).

Capital Formation

Capital formation entails channeling of public and private savings into new issues through the issue of new securities which result in a net increase in the aggregate investments of financial assets.

Profitability

Profitability is the state or condition of yielding a financial profit or gain. It is often measured by price to earnings ratio.

The return of profit on capital employed gives an overall picture of profitability.

Investment

Investment is a monetary asset purchased with the idea that the asset will provide income in the future.

Investment is the act of postponement of present consumption in other to have future gain or return.

Employment

Is the act of engaging the services of someone to carry out a specific task or assignment with the view or aim of receiving salary or wages

Loan

A loan in terms of small business finance is a sum of money advanced to a business that must be repaid with interest at some point in the future. The lender must bear the risk that the borrower may not repay the loan. The interest rate charged is the price for that risk. A loan is money, classified as debt for temporary use.

Interest Rates

This can be seen as the additional returns made outside the capital or loan obtained. In other words, interest is the price demanded by lenders and depositors to part with their money. “It is an equivalent to the required rate of return on investment or yield to maturity on long term instruments” (CBN 2007).

CHAPTER TWO

LITERATURE REVIEW

2.1 People’s Bank of Nigeria

At the instance of the Central Bank of Nigeria, the financial System Review Committee in 1975 recommended and the Federal Government approved a programme of geographical dispersal of bank branches particularly designed to ensure the penetration of the rural areas by banks. The scheme which started in 1977 ended its third phase in 1989 with a total of 756 rural branches opened out of a total allocated number of 766. Despite this apparent impressive performance, most rural dwellers especially the low-income group cannot secure credit facilities from these commercial banks due to high costs of credit (particularly in a deregulated interest rates environment), lack of collateral security, high level illiteracy, and low financial requests which commercial banks consider not worth while to extend given their high risk. (Anyanwu, 1993).

Thus, the Federal Government established the People's Bank of Nigeria (PBN) in 1989 in order to bring financial relief and a new deal to the poor but honest and hard working masses.

According to Agence France Presse (AFP) 6 January 1992 report, the People's Bank of Nigeria (PBN) was established in October 1989 by the government of President Ibrahim Babangida to cater for poor professional people and traders who, because of the stringent requirements of orthodox commercial banks, might not have access to loans".

In 1991, the PBN Chairman and Managing Director were Solarin and Sokenu, respectively (Europa 1991, 2021). In January 1992 the Nigerian Government appointed Mr. Ezekiel Oyeyipo as PBN's chairman to replace Mr. Solarin, who resigned "in protest at the government's delay in bringing to court senior bank officials implicated in a financial and corruption scandal" (AFP 17 Jan. 1992). In 1995, the PBN chairman and managing director of the People's Bank of Nigeria were Oyeyipo and Sokenu, respectively (Europa 1995, 1995, 2319). In 1992 the People's Bank of

Nigeria had 200 branches located throughout the country and up to 1992, had made loans to some 245,000 clients since it began its operations (AFP 7 Jan. 1992).

2.2 Community Banking System in Nigeria

Breaking the circle of poverty and attaining sustainable development has eluded the developing countries for several decades DOW due to the failure to integrate all segments of the society especially the low income people in the production process. The system has not provided the majority of poor people with secure access to credit for investment in economically productive ventures.

Successive government efforts to solve the problem, through several rural finance and development programmes, have met with unsatisfactory results. This was due to the lack of a mechanism which would encourage the mobilization of savings among people at the grass root level and at the same time simply the disbursement of funds through loans and advances. The Rural Banking Scheme, instituted by the Central Bank in 1977, took off rather slowly. Even when the numerical target of at least one branch in every local Government Area was met in 1991, these rural branches failed to meet the credit needs of the people and remained mere deposit takers. The peoples' Bank (PB) was set up I 1989 to meet the credit needs of the rural and urban poor, artisans, farmers, petty traders, vehicle mechanics, etc. However, because it is supply-led and heavily dependent on subventions from the Federal Government for is operations, the recovery of loans has not been very efficient and it is facing problems of recapitalization due to heavy overheads that outstrip earnings. The Community Bank was conceived to answer some of the observed weaknesses in credit delivery to the grass roots. (Yunusa, 1998).

"The Community Bank is a unit bank, "a self sustaining financial institution owned and managed by a community or group of communities for the purpose of providing credit, deposit banking and other financial services to its members largely on the basis of their mutual group responsibility, self – recognition and merit."

A description review of literature with Community Bank of Nigeria is very scanty. The book the Community Banking system in Nigeria an introduction was made succeeded by experts whose work experienced touched initially on the subject. These experts includes, lawyers, Community Bank inspectors, free academics, a bank manager and a central bank of Nigeria examiner, other vital articles and Community Banking are found in magazines, journals and newspapers.

Ukemenam (1998), remarked that it was in the year 1892 that banking activities first started in Nigeria with the opening of branch of a branch of the African banking cooperation in Lagos. The bank was incorporated in Britain and owned by Dumpster Company, a shipping firm based in Liverpool. Their business then was the export to Europe of raw materials and cash crops. Two years later, bank of the British west African Limited, (BBWA) now called First Bank of Nigeria, other foreign banks were also established.

Continued and the researcher agreed with him that Community Bank is a Commercial Bank serving only one community and exploiting to the fullest its advantageous position of local knowledge and frost. Its survival intimately connected with the development of a community which it serves by not getting involved in sophisticated bank services like foreign exchange transactions or international commercial papers, cooperate finance or equipment leasing and by minimizing its operational cost through burgh localization and superior arrangement for loans recovery, it should be able to operate at lower interest rates to its customers. Each community bank, by serving its particular area, will also be contributing to the over all development of the banking system and of the economy anda whole. Above all, National network of such Community Bank will greatly strengthen the massive programmed of government in rural development. (Chukwuka, 2013).

Sagbamah (1999), noted that the low volume of business in the rural areas were the vicious cycle of poverty tends to be prevalent, cannot guarantee sustainable business activities to encourage the establishment of conventional banks to provide banking services. The services of banks have multiplier effect in the society at large. That is why the failure of a bank in a community normally spell doom for that community. On the other hand, its success is easily reflected in the people. These station in most developing countries, is led to the existence of financial dualism characterized by formal or institutionalized banking and financial system in the urban centers and informal financial market in the rural areas.

Apaye (1981), stated that Commercial Banks have to decide on the proportion of deposit to be held in cash , profitability and solvency Community Bank are no exception since they have much of the characteristics of Commercial Banks. The rural dwellers have been identified as important resources for developing the rural communities, hence the problem of financial rural dwellers for effective development becomes an issue.

Akambi (1994), noted that to receive this issue a grass root banking which would involve the rural dwellers themselves was necessary. In other to vigorously pursue the policy of rural development, the directorate for food, roads, (rural infrastructure was established by degree No. 4 of 1987. One of the primary task of the directorate was to identify, involve support viable local community organizations in the effective mobilization of the rural population for sustained rural development activities, bearing on mind the need for promoting greater communities participation and economic self reliance.

According to Ijere (1991), started that the needs necessitated that the establishment of the Community Bank implementation committee is fully completed in 1999 as a new board known as national board for Community Bank. Each where inaugurated to take over from the Community Bank implementation committee. This was as a result of increase in the numbers of the Community Bank and the increasing role of these banks in rural development.

Community Banks are widely regarded as micro-finance institution whose success is judged mainly by its accessibility and spread at the grass root level where it measure clientele reside. Banking and financial experts as "The Modernization and supplication of an otherwise sophisticated banking system" consequently, by virtue of its community ownership, it serves the needs of the poor, small and medium clients speeding and perhaps efficiently.

According to the chairman of the natural Community Bank (NBCB) at the annual workshop held in Benin City in Edo State in 1994, he said that Community Bank has two missions, the first like a Commercial Bank is to provide banking services to the community. The second and more important is to promote the development of the local economy. The further emphasized that Community Banks are units banks and that unless that makes the local economy grow, they themselves will not grow too.

Also, Patric (1995), in her paper states in actual fact the role of the rural banking system in Nigeria today as exemplified by Community Bank is a giant stride in the nations banking industry.

Moreover, the chairman of the national board for Community Banks manpower development is of the opinion that Community Bank would be expected to draw career paths for their staff as the skills and knowledge about banking improved. He further said that an individual who wishes to pursue a career in Community Banking this have a wonderful opportunity available.

The Community Banking scheme failed to achieve its goals and most banks failed or became distressed due to a combination of various factors including:

i. Weak institutional capacity
ii. Weak capital base
iii. Liquidity challenge
iv. Incompetent management / staffing
v. Poor regulatory environment and supervision
vi. Poor corporate governance
vii. Insider abuse
viii. Poor asset quality
ix. Unstable micro-economic aggregates
x. Poor internal controls.

These challenges created the justification for the emergence of Microfinance Banks, in 2005. (Oriji, 1996)

2.3 What is Microfinance

Microfinance is the provision of very small loans that are repaid within short period of times and is essentially used by low income individuals and households who have few assets that can be used as collateral. (Bowman, 1990).

Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfer and insurance to poor and low income households and their Microenterprises.

Providers of financial services to the poor include donor supported, non profit, non governmental organizations (NGOs) cooperatives, community based development institutions like self help groups (SHGs) and credit unions.

Financial services for the low income earners and the poor but enterprising have proved to be a powerful instrument for poverty reduction that enables the low income earners and the poor but enterprising to build assets, increase incomes and reduce their vulnerability to economic stress. (Carmichael, 2008).

Microfinance institutions (MFI's) refers to a wide range of organizations dedicated to providing these services and includes non-governmental organizations credit unions, cooperatives, private commercial banks non-banks financial institutions and parts of state owned banks.

Poor and low income people are not able to access loans from Commercial Banks normally because of lack in guarantee and collateral. But there are many other reasons also involved for which Commercial Banks were not willing to finance poor. These reasons are included that poor have less education, no proper experience and training high expenses on transactions and small loans and lower rate of profit. Therefore limited options to access loans leads to push poor people in more poverty. This situation resulted in emerging the idea of Micro lending and Microfinance. Microfinance therefore is a way to finance people, those who have no collateral or any property for guarantee. Microfinance is a way of financing to the poor for their business to alleviate their poverty, empowering them, giving social benefits on sustainable way. (Annan, 2005).

2.4 Characteristics of Microfinance

Microfinance gives access to financial and non-financial services to poor but enterprising and low income earners people, who wish to access money for starting or developing an income generation activity. The individual loans and savings of the poor clients are small. Microfinance comes into being from the appreciation that micro entrepreneurs and some poorer clients can be bankable that is they can repay both the principal and interest on time and also make savings provided financial services are tailored to suit their needs. Microfinance as a discipline has created financial products and services that together have enabled low income people to become clients of a banking intermediary. According to Murray and Boros (2002). The characteristics of microfinance products include:

i. Little amounts of loans and savings.

ii. Short terms loan (usually up to the term of one year).

iii. Payment schedules attribute frequent installments (or frequent deposits).

iv. Installments made up from both principal and interest which amortized in course of time.

v. Higher interest rates on credit (higher than Commercial Banks rates but lower than loan shark rates), which reflects the labour intensive work associated with making small loans and allowing the Microfinance intermediary to become sustainable overtime.

vi. Easy entrance to the Microfinance intermediary saves the time and money of the client and permits the intermediary to have a better idea about the client's financial and social status.

vii. Application procedures are simple.

Short processing periods (between the completion of the application and the disbursement of the loan).

The clients who pay on time become eligible for repeat loans with higher amounts.

viii. The use of tapered interest rates (decreasing interest rates over several loan cycles) as an incentive to repay on time. Large size loans are less costly to the MFI, so some lenders provide large size loans on relatively lower rates.

ix. No collateral is required contrary to formal banking practices. Instead of collateral microfinance intermediaries use alternative method like the assessment of clients repayment potential by running cash flow analysis, which is based on the stream of cash flows generated by the activities for which loans are taken.

2.5 Categories of Microfinance Banks

According to Asekome and Ogbechie (2011), there are three categories of Microfinance Banks depending on the size in terms of capital based and their operational coverage as specified by the Central Bank of Nigeria regulatory frame work.

Unit Microfinance Bank

The unit is situated in one location where it concentrate all activities it has a capital based of N20 million. They can only operate within a particular time or local government area. The bank is prohibited from having branches and cash centres.

State Microfinance Bank

These are Microfinance Bank with a minimum paid up capital based of N100 million naira and above, which can operate outside a particular local government area but within a state. They are described as State based Microfinance Banks.

National Microfinance Bank

These type of Microfinance Bank is licensed to operate branch offices in all state of the federation subject to a minimum capital based structure of N2 billion naira. The national Microfinance Bank is allowed to open branches in all state of the federation with the approval of Central Bank of Nigeria (CBN).

2.6 Principles for Sustainable Microlending

The following are some of the principles for sustainable Microlending.

Offer services that fit the preferences of low-income entrepreneurs

Give short-term loans

Give small loans

Give repeat loans

Allow relatively unrestricted use

Be customer friendly

Streamline (Make simple or most efficient) operations to reduce cost

Highly streamline operations

Standardize the lending process

Decentralize loan approval

Maintain inexpensive offices

Select staff from local communities

Motivate Clients to Repay Loans

Do not require formal collateral

Use character references or group lending with joint liability to motivate repayments

Use incentives for prompt repayment

Develop a public image that signals seriousness about loan collection

Charge Full-Cost Interest Rates and Fees

Recover the costs of the loan. Small loans sizes and personalized service result in costs pert loan that require interest rates significantly higher than commercial banks (although significantly lower than informal sector rates).

Expect repayment. Low income entrepreneurs have shown a willingness and ability to pay interest rates higher than Commercial Banks for services that fit their needs. (Kiiru, 2008).

2.7 Poverty alleviation, microcredit and its impact in Nigeria

Reifner (2007), stated that Microfinance is recognized as an effective tool to fight poverty by providing financial services to those who do not have access to or are neglected by the Commercial Banks and financial institutions. Financial services provided by Micro Finance Institutions (MFIs) generally include savings and credit. According to an estimate, currently 67.61 million people around the world have access to Micro financing. This number is expected to grow steadily in the future since the target is to reach 100 million poor people with credit by the end of the year 2005.

The influence of Microcredit on the destitute people lives in rural, semi urban area of Nigeria perceived during the research study period. It has been approved through several researches that Microcredit is very significant tool for poverty alleviation. No doubt, Microcredit is an instrument that is fruitful source giving employment to unemployed, very operative tool to meet the immediate needs that may be children school fees, medicines etc., it is time to implement this weapon against the struggle of poverty alleviation. There are some key factors that validate about poverty decreasing. These aspects (Training & education, housing, income, saving, food, clean or mineral water etc.) are challenges of the MDG's in which Microcredit plays dynamic role.

2.8 Funding Sources for Microfinance Banks

Olaitan (2007), asserted that the market for Microfinance in Nigeria is enormous as confirmed by UNDP (2005). Over 98.3 million of the population live on less than $1 a day. Also, 65 percent (91.0 million) have no access to financial services. Therefore, a huge gap exists in the provision of services to Microfinance segment. The implementation of the Microfinance policy by the Central Bank of Nigeria (2005) has brought to the fore, new challenges, including the need for innovations, in order to engender opportunities for the growth and development of the Microfinance institutions (MFIs).

One of the critical challenges that the new policy has introduced is that of funding of the operations of microfinance banks. Funding is required to meet the capital base as stipulated in the new policy regime. The funding options available for the activities of MFBs under the Central Bank policy are numerous and are briefly examined as follows:

Equity Capital

To raise funds, the promoter can sell partial interest in the MFB to investors. The equity investors become part-owners and partners. In exchange, the investor will receive stocks for their ownership position in the microfinance bank. It is a very convenient way of raising capital because it does not involve direct obligation to repay, which gives the management some degree of control on the activities of the organization. (Adaju, 2006).

Debt Financing

This involves borrowing money from commercial sources with the full understanding that the amount will be repaid in the future with interest within a specified period. Generally, “debt financing does not involve any provision for ownership of the company”. (Akanji, 2002).

Partnering

Deposit money banks (DMBS) have stated to partner with MFBS and MFIS in different froms.

This includes the provision of credit facilities, and mutual outsourcing arrangements. In mutual outsourcing arrangement, the microfinance institution does the actual lending on behalf of the commercial bank which only books the risk portfolio on its balance sheet. (Berne, 2004).

Finance Company

This simply means borrowing the start up fund from finance companies. This is not advisable as interest rate charged by finance company is usually high - much higher than what deposit money banks or cooperatives charge. This funding source is not attractive. (Olaitan, 2007).

Private Placement of Securities

This funding strategy involves the Microfinance institution offering security (shares or bonds) not to the public but to individuals or a small group of investors. This type of fund raising is not required to be registered with the Securities and Exchange Commission. (Wome, 2003).

Selling Assets

The sponsors of a Microfinance institution may elect to sell some of their personal effects to raise the initial capital for the bank. However well established and already viable MFBs or MFIs whish require funds for expansion of branch network may not have to sell assets to raise capital because their track records and goodwill will enable them to secure funding from other sources. (Lafourcade, 2005).

Capital Markets

This is raising funds directly from investors. In order to deliver on their potential to reduce poverty, MFBs or MFIs can explore the capital market as it is the largest source of financing. (Olaitan, 2007).

Private or Commercial Capital

The National Bureau of Statistics (2005), refers to all private sectors financial resources available for use. In the case of investment, this includes monetary capital that is privately owned and invested directly by its owners or via intermediaries. Commercial capital expects to make positive rates of return relative to risk. MFBs or MFIs that have established themselves as market leaders and innovators can access private capital by demonstrating that their portfolios are low-risk class assets. If their assets are adjudged to be truly low-risked, they could attract mainstream investors.

Guarantee

This is not a funding source per-se, but it reduces the risk exposure of lenders. Loan guarantee reduces the amount of capital required by the lender on outstanding loans. It is a fall-back position for lenders and increases their liquidity. According to Alvaro (2001), credit guarantee schemes are programmes that insure the repayment of a loan, in part or in all, in order to motivate lenders to lend to groups/individuals which would not have access to credit under normal circumstances. MFIs can use guarantee to secure funding from financial institutions. (Alvaro, 2001).

Microfinance Development Fund (MDF)

The Central Bank in its policy pronouncement (2005), plans to set up a Microfinance Development Fund (MDF). When established it will provide dependable and sustainable source of funding for Microfinance Banks. Section 11.9 of the Microfinance policy of the Central Bank makes provision for such funding arrangement.

Other Sources of Funding Microfinance

According to Ehigiamusoe (2005), a range of international development agencies (sometimes called international development partners), including the following are sources of funds for Microfinance:

Bilateral and Multinational Donors

These are the aid agencies of Government in industrial countries, development banks and organizations. These are agencies owned by the governments of the industrial and developed world such as World Bank, UN agencies like the United Nations Development Programme (UNDP) and the International Fund for Agricultural Development (IFAD).

Foundations

Privately owned non-profit institutions through which private wealth is contributed and distributed for public and charitable purposes, such as the Ford Foundation, Argidius or the Open Society Institute (OSI). These donors spend an estimated sum of $800million to $1billion each year on Microfinance and credit projects. Donor agencies support Microfinance using a range of instrument such as; policy support, technical assistance (support by experts to offer technical advice), grants, loans (which can be offered at subsidized or commercial interest rates, usually low interest loans that can be converted into equity, equity investments in those institutions that can sell shares and guarantees. Different combinations of these instruments are used for a host of projects.

Several funding sources are available to Microfinance institutions which they could tap into to improve their asset creation potential and the provision of other essential Microfinance services. Institutions must access the appropriate funding sources, as a basis for making the right choice, taking into cognizance the regulatory environment under which they operate.

2.9 Key Success Factors in Microfinance

Kimotho (2007). observe that it is necessary to learn from other countries the issues that are considered as critical and key success factors to Microfinance operations as follows:

Maintaining Minimum Portfolio at risk; the organisation should maintain a portfolio at Risk (PAR) of less than 3 per cent of all the portfolio or able to attain 97 per cen repayment of funds that have been lent to clients. It should also strife to achieve a wide outreach in order to enjoy economies of scale. (Haruna, 2007).

Adequate Provisioning: there is a need for the MFIs to maintain a provision of 2 per cent of the total outstanding portfolio in order to meet future contingencies for bad and doubt debts. Lending operation must be timely, transparent and on condition that the borrower has capacity to repay and of good character. (Kefas, 2006).

Appropriate Entrepreneurial Spirit: Regardless of socio-economic status, there are some people who simply do not have the mind and trait for entrepreneurship and would do well as employee rather than employer. It is advised that only those who have entrepreneurial spirit and capacity that should venture into Microfinance or Micro-enterprises businesses. (Adaju, 2006).

Zero Tolerance for Loan Default: There is need to introduce sanction for loan defaulters. The organisation should operate professionally and have clearly stipulated enforceable risk management strategies against loan defaulters. Borrowers are to understand that loans are not gifts and must be paid back in full. (Oni, 2008).

Capacity Building: There is the need for the practitioners (lenders) to support the business development skills of their customers, if they (lenders) hope to recover their facilities. (Berne, 2004).

Provision of Access to the Poor for Financial Service: Emphasis must be place on the fact that the poor do not need ‘’Hand-Outs’’, what they need is ‘’a hand’’ to enable them to become self reliant and to live in dignity and self respect. Continuous state of dependency destroys one’s self esteem and undermines one’s dignity. (Ochefu, 2008).

Product Packaging: Initiating new products and re-packaging old ones must be the organisation’s habit. If necessary a unit of research and new product should be established. These critical factors are key to the long-term survival of the MFIs. (Bonini, 2009).

The Role of Government and Donors: Practitioners and borrowers should fully appreciate that the role of the Government. The Central Bank and Donor is that of the facilitators – ‘’an enabler’’ only in the sector and not ‘’doers”. (Ukeje, 2005).

Appropriate Interest Regime: Setting interest rate ceiling and providing subsidized loans by the government or its agencies is not appropriate for the growth of long term sustainable Microfinance practice. They should determine the appropriate financial services they will provide and price the services by themselves reasonably. (Wilson, 2000).

Apex Association: There is a need to have an Apex association of Microfinance institutions or banks made up of individual members that will develop and encourage observance of standard and achievement of internationally accepted "best standard practice in Microfinance." Such organisation would also advocate for enabling environment and push for development of policies that are conducive to achieving a vibrant and long-term sustainable Microfinance sector. In concluding his article, (Kimotho) observed that country experiences have shown that good corporate governance practice along with the other issues discussed above would go a long way to enhance the sustainability of Microfinance practice and ensure a high degree of success. (Mordi, 2006).

2.10 Sustainability of Microfinance Institutions

In the Publications by Hartungi (2007), the matter of interest rate charge which sustains the Microfinance institutions was apply presented as follows "for a financial institution to scale and remain sustainable, at a bare minimum, it has to cover its costs". In the example below, a large bank (big lender) can charge interest rate of about 14 per cent to recoup its cost, whereas the Microfinance institution (MFIs) has to charge a rate of at least 31 per cent to cover its cost. It is expected therefore that trends in the nature of business of clients to the target Microfinance banks in this study would transform as their economic welfare improves. Some small traders are likely to move up to take on more sophisticated businesses as more training and more funds become available to them from the services rendered by the Microfinance institutions. All this will engender poverty alleviation and economic development.

2.11 Microfinance Performance in Nigeria

Despite the proliferation of microfinance banks in Nigeria, 53.6 percent of Nigeria's 150 Million population are still living below poverty line as persons earning below one US dollar per day. Of these figures about 78% of them are living in rural areas while about 67% are women (World Bank, 2005).

As at end August (2009), according to the Central Bank Governor, Soludo 903 Microfinance banks had been licensed but with all the regulatory incentives, the policy objectives, goals and targets of the banks have not been realized Fabanwo (2009). Fabanwo attributed the challenges of the banks to "weak internal control measures, poor risk management procedures, huge investment in non-earning fixed assets before attaining the minimum scale efficiency and level required to breakeven and wrong classification of items. Other challenges are non-performing inside credit, lack of innovation and creativity in Microfinance product design and pricing".

Though the banks were well capitalized above the prescribed minimum N20 million level, the asset quality was generally poor, just as their corporate governance was also weak. Central Bank report (2008), showed that the total assets and liabilities of all the MFBs increased by 62.4 percent to 122.8 billion in 2008. Their paid up capital was increased by 152.7 percent to N28.8 billion while their shareholders fund increased by 69.7 percent to 37 billion. Activities of the Microfinance Banks (2008), were characterized by short-term sources and application of funds CBN Report, (2008). Other statistics reported by the Central Bank (2008) are that:

i. Total assets of the MFBs is about N77.87 billion and
ii. Total liabilities amounted to N39.57 billion

While applauding the impact of about 900 Microfinance Banks on the economy, Soludo (2009), in an interview shortly before he left office as the Central Bank of Nigeria Governor said "the impact on the rural economy, poverty reduction on the people is quite tremendous, we must mainstream Microfinance in all the states and local governments in the country".

2.12 Goals and Key Principles of Microfinance

2.12.1 Key Goals of Microfinance

Microfinance, a type of banking service that is provided to unemployed or low-income individuals or groups who would otherwise have no other means of gaining any financial services. Ultimately, the goal of Microfinance is to give low income people an opportunity to become self-sufficient by providing a means of saving money, borrowing money and insurance.

The goals of Microfinance Banks are the following:

i. To provide diversified, trustworthy and timely financial services to the economically active poor.
ii. To mobilize savings for financial intermediation
iii. To create employment opportunities

iv. To provide real avenues for the administration of the micro-credit program o government and high net worth individuals.

vi. To provide payment services such as salaries, gratuities and pensions on behalf of various tiers of government.

vii. To engage the poor in the socio-economic development of the country. (Kimotho, 2007).

2.12.2 Key Principles of Microfinance

The poor need a variety of financial services, not just loans

Each one needs a wide range of financial services that should be elastic, suitable and realistically priced. Poor not always insist only cash loans they also need medical insurance, saving and cash transfer etc. (Farhat, 2007).

Microfinance is a powerful instrument against poverty

It is necessary to provide the access of financial services to deprived people for increasing their income, building assets and reduced their liabilities and need to empowering against the poverty. (James, 2006).

Microfinance means building financial systems that serve the poor

Poor people constitute the vast majority of the population in most developing countries. Yet, an overwhelming number of the poor continue to lack access to basic financial services. In many countries, Microfinance continues to be seen as a marginal sector and primarily a development concern for donors, governments, and socially-responsible investors. I n order to achieve its full potential of reaching a large number of the poor, Microfinance should become an integral part of the financial sector. (Roy, 2003).

Financial sustainability is necessary to reach significant numbers of poor people

Most poor people are not able to access financial services because of the lack of strong Retail financial intermediaries. Building financially sustainable institutions is not an end in itself. It is the only way to reach significant scale and impact far beyond what donor agencies can fund. Sustainability is the ability of a Micro-finance provider to cover all of its costs. It allows the continued operation of the Microfinance provider and the ongoing provision of financial services to the poor. Achieving financial sustainability means reducing transaction costs, offering better products and services that meet client needs, and finding new ways to reach the embanked poor. (Murray, 2005).

Microfinance is about building permanent local financial institutions

Building financial systems for the poor means building sound domestic financial intermediaries that can provide financial services to poor people on a permanent basis. Such institutions should be able to mobilize and recycle domestic saving, extend credit, and provide a range of services. Dependence on finding from donors and governments including government financed development banks will gradually diminish as local financial institution and private capital markets mature. (Farhat, 2007).

2.13 Microfinance Experience in Nigeria

Several researchers have turned their attention to the operation of Microfinance Institution in Nigeria. Akintoye and Owoyori (2009), opined that Micro-financing has been accepted as a major sub-sector in the finance sector of the Nigeria economy. The authors are concerned with the performance of the Microfinance Banks in order that both the clients (the poor of the society) and the owners (shareholders) may attain the objectives of the banks. "Ultimately, satisfactory performance of Microfinance Banks will lead to poverty alleviation and economic development". The above contribution by the authors lay emphasis on corporate government, training of operators. Satisfactory regulatory framework and monitoring on the part of policy makers. This contribution is considered as extremely relevant as poor corporate governance, poor training and inconsistent policies were the bane of earlier programmes aimed at alleviating poverty and enhanced economic development. If Microfinance will succeed in poverty alleviation and enhance economic development, all the issues raised above must accompany Microfinance operations.

In a paper on "Microfinance and developing the Nigerian economy", Onwumere (2009), appraised Nigeria current Microfinance policy within the context of the country's aspiration to join the league of twenty largest economies of the world by the year 2020. After reviewing the number of Microfinance Banks relative to the population of the country, the author concluded that more Microfinance Banks and branches would have to be put in place and be more widely spread across the country in order to ensure that their services reach more clients and in more places. He further reasoned that the Microfinance policy, till date remains the most wholesome approach ever adopted by the country to reach financially unserved segments of the economy and inject a process of poverty alleviation.

Mago and Mago (2009), stated that Africa has received billions of dollars in foreign aid for four decades but has failed to develop. He affirms that foreign aid goes with "dependency syndrome" and therefore people remain underpowered to escape poverty. Access to financial services by the poor is one strategy for increasing their incomes and productivity fur poverty alleviation. This study based on rural Microfinance concludes that Microfinance can reduce aid dependency.

According to Mago and Mago (2009), Microfinance is the provision of a broad range of financial services to poor and low income households and their enterprises. The services are provided by formal, semi-formal and informal organizations. SMEs which are contributory to economic growth and development have grown in developing countries, and they require financial support. The authors submit that SMEs lack access to capital which is detrimental to their development and that Microfinance intervention could be used to develop small scale enterprises, especially in the rural areas. With the assistance of Microfinance, SMEs can be made competitive and then graduate into the formal sector of the economy. They can grow from their small status into bigger organizations thereby graduating into the formal and large scale sector of the economy through access to funds which the larger financial institutions would not provide. While it is agreed that provision of finance by Microfinance institutions do enhance the operations of SMEs and therefore make them profitable and relevant in the process of economic development, it may not be entirely correct to assume that SMEs may graduate into the formal and larger scale sector of the economy.

Ogunrinde (2009), highlighted some of the teething problems in Microfinance practice, including "putting the necessary infrastructure like buildings in place, non-availability of public power supply, non-payment of loans taken by the customers as well as lack of financial support from the three tiers of government". Millions of naira is being spent to provide electricity, monthly. He went on to suggest that Microfinance Banks should be exempted from tax payment because of the challenges enumerated above. Some of the customers see loans given to them as national cake; some absconded after collecting such loans. He also submits that the Central Bank of Nigeria has played a vital role in the process, but wonders if it can do more. The author suggested the need for firm guidelines to make micro finance banks more effective in their daily operations. 'However, there are some constraints that the author pointed out including: (I) non availability of adequate infrastructural development, (2) customer delinquency and; (3) inadequate and inefficient manpower and training.

According to Kimotho (2007), there has been a high level of mushrooming of Microfinance institutions (MFIs) worldwide. He observes that Microfinance practitioners and donors "have continued to see it as the panacea/silver bullet and the sole answer to poverty reduction, with little regard to practitioners management skills, professionalism, good governance, client's readiness, capacity and ability to undertake long-term sustainable business activities". He opines that Microfinance industry is still young compared to the universal banks, and we should not readily conclude with certainly, its real contribution to poverty reduction, improvement in real purchasing power of the poor and the poor's asset accumulation.

The author observes further that despite the growth of the sector over the last couple of years the overall outreach of Microfinance institutions remains relatively low. In effect, the entire Microfinance activities in Nigeria contribute a meager 0.2 per cent to the Gross Domestic Product (GDP) and account for bonly 0.9 per cent of the total credit, compared with about 22 per cent in South Africa. Current efforts are geared towards making micro enterprise activities the engine of growth and economic development in Nigeria as in Indonesia and Bolivia. , where vibrant Microfinance sector and SME programmes have led to significant, noticeable and measurable improvement in the financial wellbeing of the lives of the poor and has also resulted in sustainable increase in employment generation. In order to make Microfinance more relevant to the Nigerian economy, there is the need to address issue of professionalism.

Non-Governmental Organizations are known to have taken a keen interest in Microfinance in Nigeria. Some of them include, according to Agbobli, Kekar, Togo and Garba (2007), the following: Farmers Development Union (FADU) Nationwide; Community Women and Development (COWAD) in Oyo State; Lift Above Poverty Organization (LAPO) in Edo State; Women Development Initiative (WDl) in Kano State; and Anambra Self-Help Organization (ASHO) in Anambra State. In general, they provide credit facilities to members to assist them in income generating activities through general loans or emergency loans. In some cases the finances of these organizations are provided by International Institutions such as UNDP- WIP programme.

Akanji (2002), in contributing to the Economic and Financial Review of the Central Bank agreed that Microfinance is indeed a strategy of poverty alleviation. She further explained that the model purveying credit to the poor is most important. He went on to propose a progressive strategy which links the institutions by merging the formal, semi-formal and informal institution that have provided credit to the poor under one umbrella such as the NACRDB.

This view, however, may not be of use for the present circumstances as the Central Bank has by 2005 Microfinance policy spelt out in details how Microfinance is to operate in Nigeria - mainly through Microfinance Banking system. Since then, formal and informal institutions that desire to provide Microfinance services have been asked to convert to Microfinance Banks.

There are, however, evidences of success stories of Microfinance in Nigeria. Kefas (2006), submitted that Microfinance was often considered one of the most effective and flexible strategies in the fight against global poverty. It is sustainable and can be implemented on a massive scale necessary to respond to the urgent needs of the world's poorest people. Microfinance services provided by the Development Exchange Centre (DEC), Bauchi, Nigeria, (a Microfinance institution) consists of small loans, usually less than ₦30,000 granted to individual women groups to establish or expand small self sustaining business. Other services include weekly savings mobilization, business management advice, counseling and entrepreneurial skill acquisition programme.

"Borrowers also provide peer support for one another through solidarity groups". I f a borrower encounters a failure in her ability to pay back a loan, members of the group assist in defraying the loan. This contributes substantially to the high repayment rate of loans achieved by the Microfinance institution Development Exchange Centre.

2.14 Roles of Micro-Finance in Micro, Small and Medium Enterprises (MSMES)

some Innovative Ideas

Microfinance has several major roles in micro, small and medium enterprise. Kefas (2006), submitted that Microfinance was often considered one of the most effective and flexible strategies in the fight against global poverty. It is sustainable and can be implemented on a massive scale necessary to respond to the urgent needs of the world's poorest people. Microfinance has also filled up certain gaps which the main stream banking has neglected in serving the people, particularly the poor. The nature of the gaps and examples of how such gaps have been filled by the Microfinance institutions have been well documented.

a) **Provision of Seed Money**: Malama Umma, a housewife from Bauchi State, Nigeria, as reported by Kefas (2006), took a first loan from the Development Exchange Centre (DEC) Microfinance institution and used it to buy a spaghetti making machine. She used the profit she made to buy a sewing machine and within one year, she was able to repay the loan. This is an example of a Microfinance institution providing seed money for an individual to start a successful.

b) **Business Training and Social Rehabilitation**: As reported in Units Innovative Solutions to Global Poverty Publication (2005), Susan, aged 30, single, with two children lived in Nairobi, Kenya. She grew up in a poor area of Kenya and got married, but the husband left her when he learnt that Susan contacted HIV. She ended up in prostitution as she was not able to find work, and had to support the two children and herself. Later she learnt about Jamii Bora, a Nairobi based Microfinance institution from her neighbour in the slum. The Microfinance institution provided Susan with some form of business training skills and gave her a loan to start a clothes mending and sales business. Jamaii Bora's Microfinance services enabled Susan to quit prostitution and moved her family away from slum into a safer house. Here is evidence of rehabilitation and business training provided by a Microfinance institution.

c) **Social Rehabilitation**: Marcelino, a Colombian was forced to flee from his village in rural Colombia as a result of warfare (guerilla) to Barrio Nelosn Mandela - a shanty town just outside of Cartagena. He took a loan of $95 from Mario Santo Domingo (Microfinance) opened with the express purpose of helping migrants like Marcelino. The loan was used to open a small variety store. After a year, Marcelino owned the most impressive store in the neighbourhood. This rehabilitation gap filling scenario was reported in the book “access for all building including financial system’ (2006:19).

d) **Start up funding and training in Business practice**: Jumba, a widow who lives in Gar, Bauchi State, Nigeria as reported by Kefas (2006), belonged to a women’s group and took a loan of ₦2,000 from DEC, she said that she was not afraid because the Microfinance (DEC) had taught her many thins such as good farming practices and how to utilize a loan. She bought a goat and two rams fattened the rams and sold them at great profit, and repaid the loan.

This is a testimony of a widow who had access to credit from a Microfinance institution which also taught her good business practices, particularly how to raise animals and provide the start up finance.

e) **Promotion of socio-economic conditions and general welfare**: Agbobli, Kekar, Togo and Garba (2007), in their contribution to the publication “UNCDF Mid-Term evaluation Reports” identified Non-Governmental Organization (NGOs) that are noted for their commitment to poverty alleviation, particularly in areas of promoion of socio economic conditions and general welfare of the communities where they provided services. Farmers Development Union (FADU) located in Ibadan Oyo State is one of such NGOs. It provides development programmes aimed at reaching the poor and the vulnerable groups with basic and social services for improved rural income, nutrition, employment and raising the standard of living conditions. These are services which the mainstream banks hardly provide. This indeed is filling a huge gap in the financial and economic landscape of the nation and of humanity in general.

f) **Leeracy**: Agoli (2007), also detailed out the contributions of the Anambra Self Help Organization (ASHO). The NGO, apart from providing Micro-credit services to its members, it also conducts literary campaigns within its community with emphasis on boy's school enrolment.

2.15 Challenges of Microfinance Banking in Nigeria

Nigerians, like many other Africans are generally known as their brother's keepers in view of the extended family system. But when truly analyzed, there is a possibility that this may not be so? Perhaps a hypothetical deep research may reveal that riot up to 10% of Nigerians would invest in ventures or people that would yield them nothing in return and here I mean, "Returns in the short run or in the immediate". The returns may be financial, emotional, spiritual, relational or social. But fact is, there is something the investors expect in return when they give and these could include being worshipped as personal heroes, fear of harassments, fear of being harmed, for family ties, religious ties, being perceived as a caring corporate organization with the intent of bigger business tickets etc. Hardly do the "Nigerian rich" set aside a portion of their riches for the "unknown poor" or for true charity except such gifts are meant to make them be seen by the Society or Divinity as good or circumvent some threatening harms etc.

This anti-poor behavior is projected into organizations; corporate, social, religious and sometimes even Government and parastatals as people see only the short end of developments without heeding the social woes of economic imbalance and Insecurity. (Okunnadewa, 2006).

Consequent upon the above beliefs, the challenges of Microfinance Banking in Nigeria may be classify under five (5) main headings:

2.15.1 Communication Gaps and Inadequate Awareness

As a background to the undeniable problem of communication for effective Microfinance, Stan Paris on his article on Microfinance as a Means of Reaching the People Opined

"Problems of communication are endemic in theindustry, dating back to what could be considered the first micro-loam In 1976, Yumus, a young economics professor at Chittagong University, Bangladesh, took his students into a small village where he discovered a woman crafting beautiful stools out of bamboo. He inquired what the woman earned for her work after repaying the trader from whom she borrowed. She told him she earned the equivalent of 2 cents in net profit. Yunus was appalled. He wanted to help her find a means of financing that would allow her to make more net profit. But, first, Yunus had an enormous communication barrier to overcome. That was a time in Bangladesh –when women didn't touch money and didn't talk to men, explains Sam DaleyHarris, director of the Microcredit Summit Campaign, an important facilitator of dialogue in the industry. Yunus had to have a female student ask the woman a question, then return to tell him the answer. There were barriers of communication even in explaining the value proposition."

Lemo (2006), truth is that today, communication barriers exists heaily in; Nigeria particularly given that even within a State, there exist as many languages and dialects as exists ethnic groups. Also, high level of illiteracy even among the educated who fails to read important things; that would enable them take positive steps towards personal, interpersonal and national development.

Lets now look at some of areas of specific communication challenges in Nigerian Micro Banking.

In adequate awareness campaigns and supports by the regulators: The CBN and the NDIC as Federal Government's engine of economic development need to do greater and continuous campaigns to all stake holders; investors, universal banks, the banking public, the micro targeted poor and low-medium scale entrepreneurs until the Micro Banking ideas sink in the society and gets well accepted. I hear and read the Governor of CBN assuring the public of safety of the Consolidated Banks. But the Similar truths and campaigns should also be carried for the Microfinance industry. (Onyema, 2006).

Anyanwu (2004), lack of trust by the poor themselves who believe that the Microfinance Banks are just like the unregulated community banks and unregulated finance houses. Going by the antecedents of the banking industry in general, no one would blame the people for lack of trust only effective and far reaching campaigns and exhibited trust in the Microfinance Banks by the government and the regulators can achieve this desirable confidence.

Olaitan (2006), an Uneducated Population: A critical ill of the populace in Nigeria is the bottom, bottom level of poor education of the people. A country where less than 10% of the populace pays attention to the print media, less than 20% listen or watch educative audio-visuals is a great challenge to information dissemination. Incidentally, the literally "very" educated people do not read handbills and communicative documents that deal with those things like Microfinance

Banking since they have no interest in such activities. A survey of how many people would read this documentary would shock you even if the Guardian Newspapers circulate it free to just the middle and upper classers. This attitude is worse with the targeted Microfinance clients. They are more interested in chasing their "kobos" than reading or listening to programs that would help them build up and improve on their standards of living.

The Active Poor's Current Preference for Gifts than Loans. Generally, a hindrance to economic development in Nigeria is the gift preference of the poor as a culture from political and religious biases. The politicians, the rich in religious circles, towns and villages all over Nigeria have cultured the poor to beggarliness and dependence rather than empowerment: for productive and financial independence. Gifts are not usually regarded as reinvestment treasures by the receivers. This is why givers ought to challenge the receivers to effectively put their gifts to work by rendering these helps through Microfinance Banks. Predicts such as ELIM Kit "n" Kin are meant for well interred givers to assist the poor live above perpetual begging. It is known internationally that Micro-financing is not charity. Micro funds are meant for the; productive activities of the beneficiaries. Consequently, only people who fall within the active poor or low income earners who are willing and able to utilize the loans for productive activities and repay both interest and capital are the bona-fide candidates for Microfinance. (Asekome, 2008).

2.15.2 Anti-Poor Attitudes of Nigerians

Umar (2008), dearth of quality investments in Microfinance Banks:. Most surplus spenders and investors in Nigeria, because of the lethargic attitudes to the poor, would not invest in Microfinance Banks. They prefer to invest in the "billion naira profit making consolidated banks". Again, Nigeria investors are coasted by the quick-return and trader-like attitudes which surely does not result in a meaningful development for the Nation. They are therefore unable to go through the gestation period required in the young Microfinance industry for their investments to start yielding good dividends. The Grameen Bank of Mohammad Yunus did not start making profit in year one, but today, that bank is one of the most profitable financial institutions in Asia and yet, it is a financial institution with classic recognition for adding the greatest value to humanity.

Snobbish and selfish attitudes by the financially well to do Nigerians. Hopefully, good campaigns and direct involvement by the who is who in Nigeria would solve the current snub by the rich on poverty alleviation programs and enable these categories of Nigerians see that Microfinance is both a good and rewarding investment and a good development project that directly and indirectly impact their lives. (Hansen, 2007).

2.15.3 Insufficient Support from the Regulators and Governments

Olaitan (2006), poor buy-ins and competitive approaches by the State Governments and Local Governments, The policy direction towards the millennium development goals is that one percent of the annual votes of the State and Local Governments should be channeled to Microfinance Banks for on- lending to the poor low to medium scale entrepreneurs.

Today over 800 Microfinance Banks are established in Nigeria, but some states rather than use the services of these banks licensed by the CBN, choose to find a round about way of dealing with mega banks or establishing their "owned" Micro credit institutions. It is my candid opinion that government involvements in

Microfinance Banking would be counter productive as they should concern themselves with policy formulation and control rather than implementation. How can someone formulate policies, implement it and effectively control it? Nigerian Microfinance Banks have what it takes to manage Micro funds for states and international bodies and should be given the chance to do so under strict supervision and controls. National Bureau of Statistics (NBS, 2010)

2.15.4 Undue competition rather than cooperation from the Mega Banks

Jamil (2008), De-marketing Activities and Unhealthy Competition by the Universal Banks. Universal banks have all the financial muscles. They truly do not want to touch the loans of the poor and Micro entrepreneurs because of the high risks and high transaction costs associated with them coupled with lack of collateral from these groups of persons and entrepreneurs. But some of these banks father than complement the activities of Microfinance Banks for the general development of our country, discredit Microfinance Banks to the, governments, donor agencies, investors and customers by painting pictures of instability, un-sustainability, poor capitalization etc to the vulnerable micro-clients and potential investors. We forget that as near as early 90's, commercial and merchant banks had minimum capital of N50 million and 40 million respectively in Nigeria.

Olajide (1980), Poor Correspondence Banking Attitudes by Correspondence Banks. In view of the unhealthy competition rather than co-operation that should exist, correspondence banks are hardly supportive of Microfinance Banks. They know they can develop ways of mutually beneficial correspondence relationship, but instead, the current stance appear to be something like "let's see how they can survive or compete with us". By this attitude, they fail to see and encourage the closing of the gaps the Micro Banks naturally are created to fill.

2.15.5 Possible Malpractices by Microfinance Bank Operators

Ketu (2008), poor structuring of some Microfinance Banks due to sacrifice of quality at the alter of cheap and inexperienced staff and operational facilities. The Central Bank of Nigeria needs to ensure that the minimum qualification and minimum experience specified for Microfinance Bank operators are Upheld at all times. This is the only way industrial confidence and sanitization may be achieved. There are no cutting comers. People not qualified to man certain departments must be changed by the owners of Microfinance institutions. This must form part of the review process of CBN and NDIC. It is very important also that Microfinance Banks deal with high level of integrity. Customers must know upfront what their charges are. No hidden chargesor cosmetic cost. This is the only way these groups of people who hitherto kept their funds outside the banking system, people who are being cultured to

achieve grace from grass would grow and be loyal is need for the CBN and NIMC to monitor MFB operations very closely. Except the same inspection and monitoring rules applied to Universal banks on liquidity, insider related, types of transactions, bank and board management etc are applied to micro banks, these banks may not be able to work in line with the policy dictates. The regulators must therefore strengthen their inspectorate departments to ensure compliance of the Microfinance Banks to the stated rules and regulations and particularly that public funds are channeled to micro clients gather than treasury and tipper market segments.

CBN must also institutionalize director's qualifications for Microfinance Banking. The Microfinance policy guidelines have specified the qualification of directors. This is to ensure that Micro Banks directors are knowledgeable in bank and financial management in order to ensure that management is consistently on the right track. Except this policy is strictly adhered to, there may be failures which will completely erode the public confidence and set the clock of the country some years backwards.

2.16 Ways Forward for Effective and Result Oriented Microfinance Banking in Nigeria

Jamil (2008), this analysis on challenges of Microfinance banking in Nigeria would be incomplete without making some suggestions on how to overcome the challenges both at the micro and macro levels in order to achieve the National and MDG objectives on Micro financing. Below are some areas that need to be tackled to effectively empower the poor in Nigeria and reap the economic and social benefits of micro financing:

Olaitan (2006), use of SMEs Funds: The built up SMEs reserves in Universal banks should be invested in or through Microfinance Banks as equity, seed funds or low interest loans for on-lending to the poor and SME's. The vision behind the creation of SMEs must not be allowed to die until the MDG goals are actualized in Nigeria. These moneys were actually set aside for Iow-medium scale entrepreneurs but remained in the books of some banks as cheap funds, CBN should enforce the SMEEIS policy against Banks that; fail to invest these funds in Microfinance Banks or SME'S by debiting the defaulting banks accounts. Any new policy on this type of social tax to universal banks or airlines, oil industry or manufacturing industries must focus on how to effectively, efficiently and speedily get the funds across lo these categories of people who are the real engines of enduring economic development.

Hansen (2007), assurance of safety of Microfinance Banks to the public: Extensive campaigns should be carried by CBN and NDlC to assure the public that Microfinance Banks are highly regulated and safe banking institutions. This should engender the investor's Interest and the active poor confidence in Micro banking. If however, the regulators are unsure, there is no need to keep the licenses of micro banks alive or keep licensing more.

Strengthening and streamlining of policy: It may be necessary to redefine operational areas for universal banks such as both to protect the young MFB industry and strengthen their operations. The idea of State and local governments dealing with mega banks on the 1% Micro banking funds for poverty alleviation seems counter productive to the Microfinance industry.

Again, in view of the fact that MFB's serve SME's whose definition is "people doing business with less than Ni .5 billion, the single obligor of N500,000 is grossly insufficient and should be reviewed upwards. This is because, an entrepreneur doing printing press may require some Ni .5 million to buy machines and with this restriction, Microfinance Banks cannot effectively serve the client.(Umar, 2008).

Micro finance Staff Quality

Minimum professional qualification and banking experience already instituted by the CBN for Key micro bankers and directors should be strictly and stringently adhered to and maintained by the regulators. (Olaitan, 2005).

Capacity Building

Training and development functions of the Microfinance Banks for their staff and clients should be supported by the regulators and all strata of government as well as big brothers-the correspondence banks. (Asekome, 2008).

Credit involvements by Governments

Government arms to restrict themselves to granting developmental funds through Microfinance Banks rather than undertaking these loans themselves. They should us adhere to the Microfinance policy by giving poverty alleviation funds to Microfinance Banks. (Carver, 2002).

Developmental projects

Government and international donors, Microfinance; institutions and well meaning NGO's should intensify quality developmental programs that would enhancethe businesses of the micro clients such as finance management programs, voluntary pension creation, confidence arid capacity building, micro insurance opportunities, security consciousness, vocational programs etc. This is because, an un-informed poor in business is highly vulnerable to the risks of loosing his/her capital. (Ljungquist, 2007).

Communication

Movie makers, and television stations should be encouraged to build into their movies and programs, grass root developments issues that touch and change the poor through Microfinance activities. These could be very effective tools to reaching both the rich and the poor as Nigerians of all ages and status. (Lemo, 2006).

Situational appreciation by International and donor agencies

International bodies and donor agencies should review their funding disbursements to the poor which hitherto are done through bodies and organizations not effectively tooled for loans processing, disbursement management for effective utilization. These funds should be disbursed through Microfinance Banks licensed by the CBN. (Smith, 2006).

2.17 The Role of Central Bank of Nigeria in Stabilizing Microfinance Banking

The Central Bank of Nigeria has done a great job in setting the policy on Microfinance Banking in Nigeria, converting Community Banks to Microfinance Banks and establishing new Microfinance Banks.

The CBN (2008),there should be more Microfinance banks to, be licensed particularly in those areas like the Niger Delta areas of Nigeria where Microfinance Banking has not been well rooted. But beyond all these, the CBN must take steps to protect this grassroots and real economic development industry. The Microfinance industry in Nigeria is very much; in the infancy and unless the CBN takes necessary steps to protect it, it would die before it takes root. Of recent, NAPEP signed a pact with Intercontinental Bank to deal out poverty alleviation funds to the poor. The week following, Intercontinental Bank announced plan to partner with a South African institution to establish a country-wide Microfinance Bank. Some questions that cry for answers are (1) did CBN grant licenses to tomato sellers that a Nigeria mega bank cannot find a Nigerian Microfinance institution to partner with; must we sell out to South Africans who would come, use our government and

Nigerians funds to operate Microfinance Banks and take huge profits away from our country? (2) has the policy on state wide or Unit Microfinance Banking changed to allow for a Nation wide Microfinance Banking (3) how much of these poor peoples' pains and modus operandi does a mega bank understand to enable them passionately give the required financial and support services to them. How would a foreign firm understand the pains and language of our people better than us to give the support services which is a very critical aspect of Microfinance? How much of the poor Nigerian people's passion do a mega bank and a foreigner have to deal with the gutter boys to bring them out of the ghetto? (4)Would the banks strictly apply their own funds to this market; or would they turn around, use their big influences and gather the funds from state and local governments which they would use in their operations and thereafter declare bigger profits to already over fattened share holders?

If the CBN is indeed concerned about the use of Microfinance to achieve goal 1 of the MDG (2015), it must take steps to ensure adherence to policies and that its licensed Microfinance Banks are indeed not only used to achieve the purpose but properly regulated for the Microfinance activities so as to take good roots and acquire credence. One last thot: "no mater how a husband thinks he feels the pain of child birth, he cannot feel it as much as the wife in the labour room". Therefore, a mega banker who is used to four course meals/air-conditioned everything and the "Oyinbo" man who has never known lights out, cannot know the pains of Nigerians poverty as the people who have been in it themselves..., the Micro Bankers. (Asekome, 2008).

2.18 The Grameen Model.

The grameen approach was developed and established by a prominent economist and professor from Bangladeshi, Yunus (1976), came up with a new concept and model which is called. **“the Grameen Model”**. During a field trip to a relatively poor village in Bangladesh with his students in 1974. Muhammad Yunus interviewed a woman who had a small business of making bamboo benches. Due to the shortage of the resources to purchase the raw materials. She was forced to borrow small amounts of money from a local lender. Without any collateral, she could only borrow enough money to buy the raw materials to build one piece at a time. The woman had to repay the lender with high interest rates. Sometimes the interest rate of that loan exceeded 10% of the principal amount. After repaying the lender, the woman was left with a profit margin that was not enough even to meet her basic daily needs. Had she had access to more complimentary terms for her loan, she would have been able to save enough money to project her from future uncertainties and in the long run would have been able to raise herself above the survival level. Discouraged by what he saw. Yunus took matters into his own hands and lent a small amount of money as a loan to 42 rural basket-weavers. He found that these small loans went a long way, and almost everyone who had borrowed the money, were keen to repay their loans. Yunus found out that even with this tiny amount of money it is possible not only to help the poor to survive but also to create the spark of personnel initiative and enterprise in the people, necessary to pull themselves out of poverty (Roy, 2003).

Just two years after his field trip, Yunus established the Grameen Bank, and introduced ‘Grameen Model’ which is now being considered as one of the most successful models in the Microfinance industry. The Grameen Bank finds the economically active poor, who are excluded from formal financial services and helps them by providing financial services. The Grameen Bank also emphasize on the mobilization of savings. The Grameen Bank is a kind of institution that provides small loans to the poor, especially women in Bangladesh, using innovative ways of getting around their borrowing constraints. The Grameen Bank has been enormously successful in generating sustainable livelihoods, reducing poverty and driving development in Bangladeshi since its start in 1976. It has growth to over 1084 national branches, in over half the villages of Bangladeshi. Recognized as huge success, the Microfinance model pioneered by Yunus has been replicated and implemented in dozens of other underdeveloped and developing countries around the world (Roy, 2003).

2.19 Methodology of Microfinance

Majority of the Microfinance institution offer and provide credit on solidarity –group lending basis without collateral. There is also a range of other methodologies that Microfinance institution follows. Some Microfinance institution starts with one methodology and later on more or diversify to another methodology so that they do not exclude certain socio- economic categories of clients. So it becomes important to have a basic understanding of methodologies and activity of Microfinance institution (Murray and Borros, 2002).

2.19.1 Group Lending

Group based lending is one of the most novel approaches of lending small amounts of money to large number of clients who cannot offer collateral. The size of the group can be vary, but most group have between five to ten members. The group self-selects its members before acquiring a loan. Loans are granted to selected members of the group first and then to the rest of the members. Most Microfinance institution require a percentage of the loan that is supposed to be saved in advance, which points out the ability to make regular payments and serve as collateral. Group members are jointly accountable for the repayment of each other's loans and usually meet weekly to collect repayments. To ensure repayment, peer pressure and joint liability works very well. The entire group will be disqualified and will not be eligible for further loans, even if one member of the group becomes a defaulter. The credit worthiness of the borrower is therefore determined by the members rather than by the Microfinance institution (Murray and Borros, 2003).

2.19.2 Self Help Groups/Associations

Rotating savings and credit associations (ROSCAs) exist in several parts of the world but recognized under different names like as Tontines and Susus. They are known to be female dominated organization's that save small amount of money and members can borrow from common pool on a rotating basis. These types of organization or self help groups, have sometimes been used by Microfinance institution for group lending among the members (Murray and Borros, 2003).

In Nigeria, these self help groups are common within communities whose activities are not restricted primarily to the provision of credit. The several multipurpose cooperative societies and credit unions who organize members for saving collection and granting of credit are example of self help groups. They serve as good channels for bank on-lending schemes. Hence Microfinance Banks should encourage these groups through which they can expand their outreach for both savings and lending activities

2.19.3 Credit Unions

Credit unions are the organizations that are formed on the basis of financial relation of savings and loans between its members. They accumulate savings from its members and provide short-term credit to the needed members. The demand for loans in general exceeds the supply of savings. In most rural areas credit unions are still the solitary source of deposit and credit services, besides the informal financial market. Because credit unions have social as well as commercial objectives, they may have a key role to play in offering pro-poor financial services. It has been observed that some women have not benefited much from the credit unions because the level of saving required is too high. (Murray and Borros, 2002).

2.19.4 Non-Governmental Organization (NGOs)

NGOs have emerged as a key player in the field of Microfinance credit. They have played the role of intermediary in various dimensions. NGOs have been active in starting and participating in Microcredit programmes. This includes creating awareness of the importance of Microcredit within the community, as well as various national and international donor agencies. They have developed resources and tools for communities and Micro credit organizations to monitor progress and indentify good practices. They have also created opportunities to learn about the principles and practice of Microcredit. This includes publications, workshops and seminars and training programme. (Dwyer, 1994).

2.19.5 Village Banking Model

This bank model was established with the sole aim of helping the poor to have access to loans and other facilities with the aim of starting a business. This brought about village banking or village banks. This group can benefit from such facilities when they constitute themselves into small groups. This group screens members for the loan. Loans are given out to members in proportion to the amount saved. (Asekome, 2003).

2.19.6 The Association for Social Advancement (ASA) Model

This association was established in 1978 by Mohammed Shafigual Haque Choudhury. This body brought about the development of management skills and capacity building. This helps to build income generating activities through loans and savings. As time progressed, the body developed financial facilities meant for the poor and low income earners. This will bring about financial sufficiency. (Wilson, 2006).

2.19.7 The Individual Lending

In this case, people get loans with considerations on their ability to pay back, previous performances, credit worthiness, level of savings, etc. The accessibility to this loan can be made easier for those whose past records show prompt payment of loans and those with required collaterals. (Murray and Boros, 2002).

2.19.7.1Character Based Lending

This is based on the character of the borrower. Microfinance Banks lend money to clients based on the character of the client. Hence it is called “character based lending”. This involves information gathering either from the borrower, friends, age mates, etc. At this point, his reputations or trust worthiness is at test. (Sacdalan and Reyes, 2009).

2.19.7.2Asset-Based Lending

This type of lending depends on the strenght of the collateral provided. The amount approved is determined by the value of the collateral. All terms of agreement is not based on expected income and pattern of expected cash. Repayment is based on terms and condition as stated by the agreement. (Wlson, 2001).

2.19.7.3 Project Based Lending

According to Asekome and Ogbechie (2011), this method does not insist on collateral, rather it depends on the expected cash flow capacity of the project in question. This aids rescheduling payment of the loan.

2.19.7.4 Cash Flow Based Lending

This method does not tie loan repayment to the specific project in question. It takes into consideration the Cash inflow and outflow of the client taking into cognizance the seasonal fluctuations in cash inflow. (Wilson, 2001).

2.20 Savings Mobilization

This has been seen as a paramount force in the Microfinance institutions. It has shown the progress made from credit based Microfinance systems to that of savings and credits. This was seen as a deficiency. These deficiencies cause problems at the individual financial institutions and national economy level. It shows saving habits among the poor with possibilities of alternative source of income. This simply shows that people save at different levels according to available income. These savings can be done through informal approaches. (Roy, 2003).

2.21 Liquidity

A lot of savings products has been designed for the rural poor with emphasis on liquidity and low transaction costs. Financial institutions have put in place reliable options for getting funds. They have also created an avenue for investing excess liquid funds at reasonable interest rates. This can also be enhanced or hampered by government policies as seen in Bangladesh which is disappointing due to liquidity issues. Other factors can be poor 5managerial skills, lack of machinery and materials, etc. Various reasons have been given to explain the liquidity problems which businesses face. They range from risk aversion, fears for loan repayment, etc. (William, 2000).

2.22 Solidarity

Solidarity enables Microfinance institutions to get their money back from their clients. This can be done through group solidarity or group liability. This is done because the group members were borrowed money on unsecured basis. This solidarity method engages women clients in financial activities in which female group is created through the promotion of shared visions and goals. This can aid progressive social change. This has empowered women in the society. (Dwyer,1994).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

This study aims at providing evidence on the effect of Microfinance Banks on the economic growth of Nigeria. Therefore, this chapter deals with the method of data collection, model specification and method of analysis.

3.2 Research Design

According to Bryman and Bell (2003), in the research work of Omoniyi (2011),Research Design forms the frame work of the entire research process. A good research design will ensure that the information obtained is relevant to the research problem and that it was collected by objective and economic procedures.

According to Thomas and James (1983), in Omoniyi research work (2011), research is the basic plan which guides the data collection and analysis phases of the research project. It is the framework which specifies the type of information to be collected, the sources of data and data collection procedures. This study adopts survey research design.

3.3 Population of the Study

The population for this study consists of the Microfinance Banks. According to CBN (2008), there are eight hundred (800) Microfinance Banks which were used in this study. This population being used is finite in nature that is they are countable. The research considers all the population.

3.4 Population Sample

The population sample is the same thing as the population of the study.

According to Central Bank of Nigeria (2008), we have over 800 licensed Microfinance Banks in Nigeria from the period of 1992 – 2014.

3.5 Sources of Data

This study adopted secondary data sourced from the Central Bank of Nigeria's Statistical bulletins and annual reports, and the National Bureau of Statistics (NBS) for the period of 1992- 2014.

3.6 Data Analysis Technique

The study adopted the ordinary least squares (OLS) as the method of analysis. This is an analytical technique which was used to estimate the empirical relationship between the dependent and independent variables.

3.7 Model Specification

To analyze the impact of microfinance banks on economic growth in Nigeria, the study adopts the following models specified as follows;

$$RGDP = F(SHF, INV, LO) \qquad 3.1$$

Equation 3.1 indicates that real Gross Domestic Product (Economic Growth) is a function of Microfinance banks shareholder's fund (SHF), investment (INV) and total loans (LO). Assuming logarithmic linear relationship, equation 3.1 above is further transformed to allow for the interpretation of the regression parameters as elasticity or semi elasticities:

Model

$$\ln rgdp_t = \beta_0 + \beta_1 \ln shf_t + \beta_2 \ln inv_t - \beta_3 l \ln lo_t + \varepsilon_t \qquad 3.2$$

Where;

RGDP = Real Gross Domestic Product

Shf = Microfinance shareholders' fund

Inv = Microfinance total investment portfolio

Lo = Microfinance total loans

β_0 = Parameter Constant

ε_t = Error Term

β_1, β_2 *and* $\beta_{3,}$ are coefficients to be estimated.

The a priori postulations of the independent variables are as expressed below:

$\beta_1, \beta_2 and\ \beta_{43} > 0$

3.8 Definition of Variables

The variables employed in the study and data sources are presented in Table 3.1.

Table 3.1: Summary of definition of variables:

Variable	Description of Variable	Definition	Data Source
RGDP	Real GDP.	Real GDP is the 1990 constant price of total output produce in the country	CBN Statistical Bulletin
SHF	Shareholders' fund	This comprises of capital layouts and reserves in	CBN Statistical Bulletin

		microfinance banks	
INV	Investment	This comprises of short and long term investment, and fixed assets of microfinance banks.	CBN Statistical Bulletin
LO	Total Loans	This is measured by Loans and advances + Bills discounted multiplied by 100	CBN Statistical Bulletin

Source: compiled by the author. CBN means Central Bank of Nigeria.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS OF RESULTS

4.1. Introduction

This chapter presents the data used in this study and the interpretation and analysis of empirical results. Trend analysis and correlation analysis were presented. The Ordinary Least Square (OLS) was used to estimate the models specified.

4.2. Presentation of Data

Table 4.1: Data for Estimation from 1992 to 2014

YEAR	SHF (N'bn)	RGDP(N'bn)	LO(N'bn)	INV(N'bn)
1992	227.00	337288.64	135.8	325.57
1993	625.30	342540.47	654.5	729.45
1994	935.40	345228.46	1,220.6	1031.59
1995	861.00	352646.22	1,129.8	956.53
1996	870.70	367218.09	1,400.2	967.17
1997	1385.80	377830.80	1,618.8	1481.85
1998	1479.30	388468.12	2,526.8	1587.96
1999	1858.40	393107.17	2,958.3	2012.21
2000	2773.60	412332.01	3,666.6	2884.86
2001	1034.80	431783.18	1,314.0	1136.07
2002	3825.60	451785.67	4,310.9	3935.32
2003	7011.10	495007.17	9,954.8	7122.59
2004	8156.40	527576.03	11,353.8	8267.83
2005	18107.30	561931.39	28,504.8	18233.41
2006	12829.82	595821.61	16,450.2	12953.66

2007	21810.70	634251.14	22,850.2	21949.09
2008	37021.80	672202.55	42,753.1	37161.24
2009	45166.00	718977.33	58,215.7	45304.64
2010	43997.50	776332.21	52,867.5	44125.65
2011	29094.80	834000.83	50,928.3	29232.65
2012	42829.10	888893.00	80,127.9	42966.43
2013	64939.00	950114.03	94,055.6	65058.41
2014	53039.03	1009211.12	82,421.1	53161.34

Source: Central Bank of Nigeria, Statistical Bulletin, 2014.

The study concentrated on periods ranging from 1992 to 2014. From table 4.1, it is revealed that there are steady increases in all the variables except loan ratio to total deposits of Microfinance Banks. Loans to total deposits recorded all-time high in 2011 of N50,928.3 billion and fall relatively low to N82,421.1billion in 2014. The Microfinance shareholders' fund through the periods in this study has been on the increase, with the highest value of N64939 billion in 2013 likewise real GDP.

4.3. Descriptive Statistics

Table 4.2: Descriptive Statistics

Statistics	RGDP	SHF	INV	LO

Mean	559328.1	17386.06	17503.72	55.66913
Median	495007.2	7011.100	7122.590	55.02000
Maximum	1009211.	64939.00	65058.41	79.16000
Minimum	337288.6	227.00	325.5700	23.43000
Std. Dev.	212939.2	20474.74	20484.70	15.35520

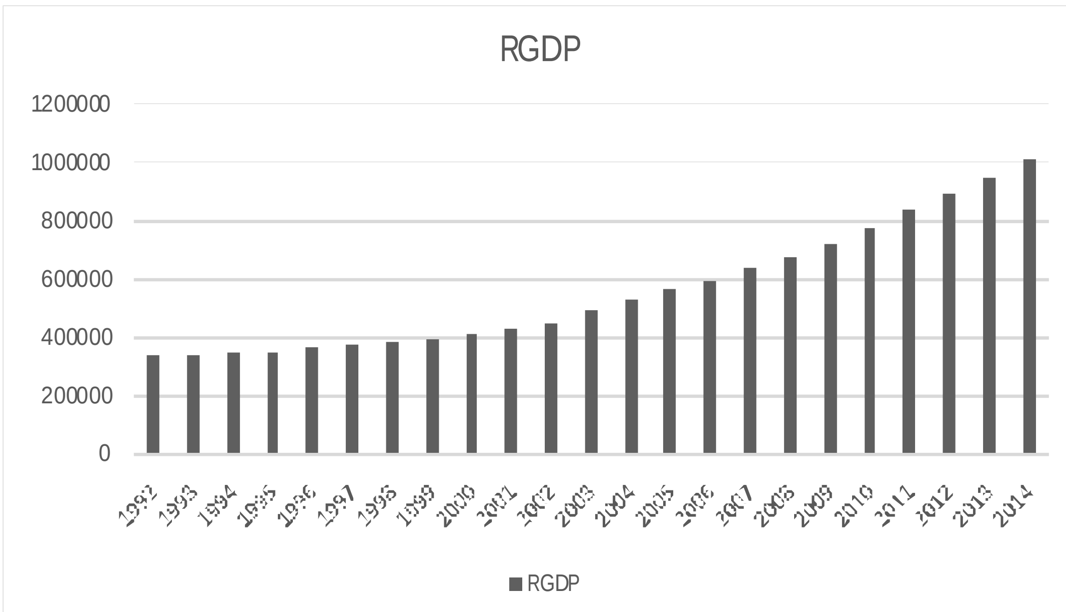
Source: E-views 8.

The descriptive statistics presented in Table 4.2 revealed a relatively fair central of tendency for variables under study. Nevertheless, standard deviations, which measure level dispersion or distribution, for Microfinance Bank shareholders' fund and investment portfolio are high, while the real GDP loan to total deposits are relatively fair. The reason behind the relatively low dispersion in real GDP and loan to total deposit are explained by the small difference between their maximum and minimum values. The calculation of mode is not possible, because all the variable do not exhibit any frequency. The difference between the maximum and minimum values of shareholders' fund and investment portfolio are high. For instance, shareholders' fund maximum value is 64939 in 2013 and its minimum value is 227 1992. Also investment portfolio maximum and minimum values are 65058.41 in 2013 and 325.57 in 1992 respectively.

4.4. Chart Illustration of Real GDP (RGDP) Shareholders' Fund (SHF) and Investment (INV) and Loan to Total Deposits (LO)

The section presents the Bar Chart analysis of Real GDP (RGDP) Shareholders' Fund (SHF) and Investment (INV). The bar chart shows clearly the extent at which variable of interest changes over time.

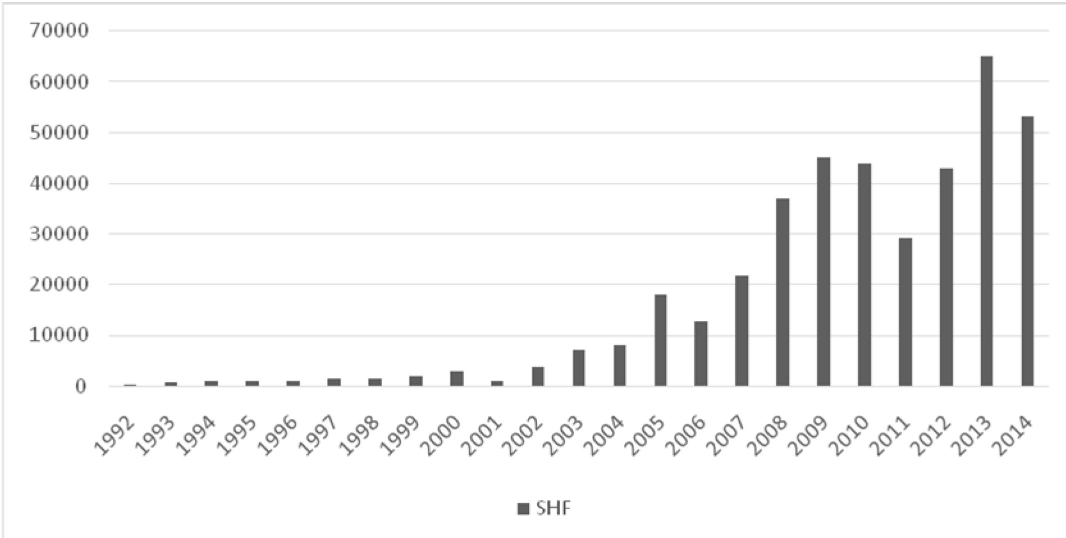
Figure 4.1: Real GDP (RGDP) Chart



Source: Microsoft Excel, 2013.

In Figure 4.1, real GDP showed a steady increase from 1992 to 2014. Factors responsible to the growth of real GDP are numerous and not only Microfinance Banks' performance. Nevertheless, micro financing is a very important tools for propelling economic growth because its fund are mostly directed to small and medium scale enterprises.

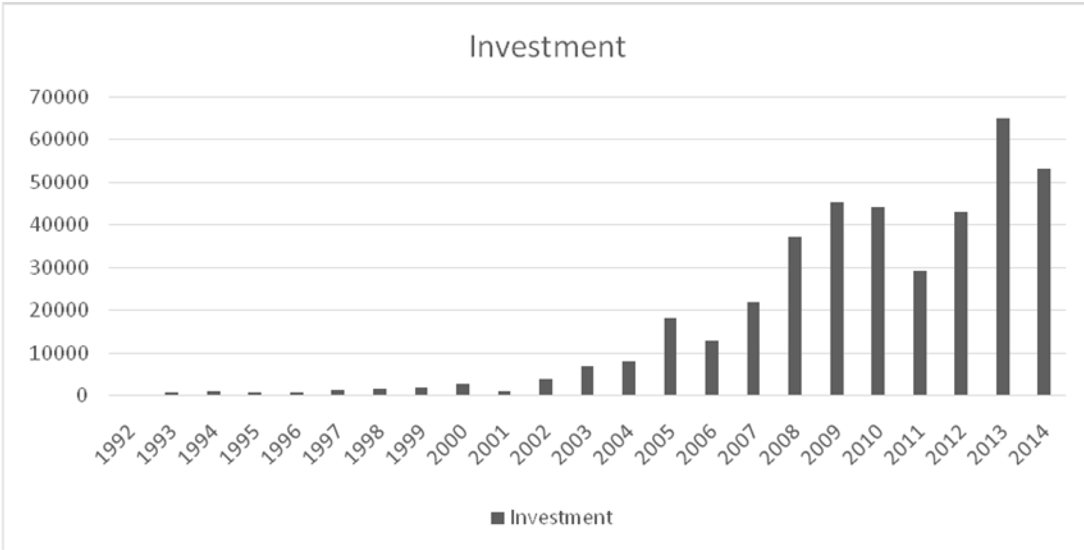
Figure 4.2: Microfinance Banks' Shareholders' Fund (SHF) Chart



Source: Microsoft Excel, 2013.

However, in Figure 4.2, Microfinance Bank Shareholders' fund showed a low value in 1992, and later rose to the latter years. Following the banking reforms in 2005, there seems to be a positive outcome and reasonable good performance in the Microfinance Bank.

Figure 4.3: Microfinance Banks' Investment (INV) Chart

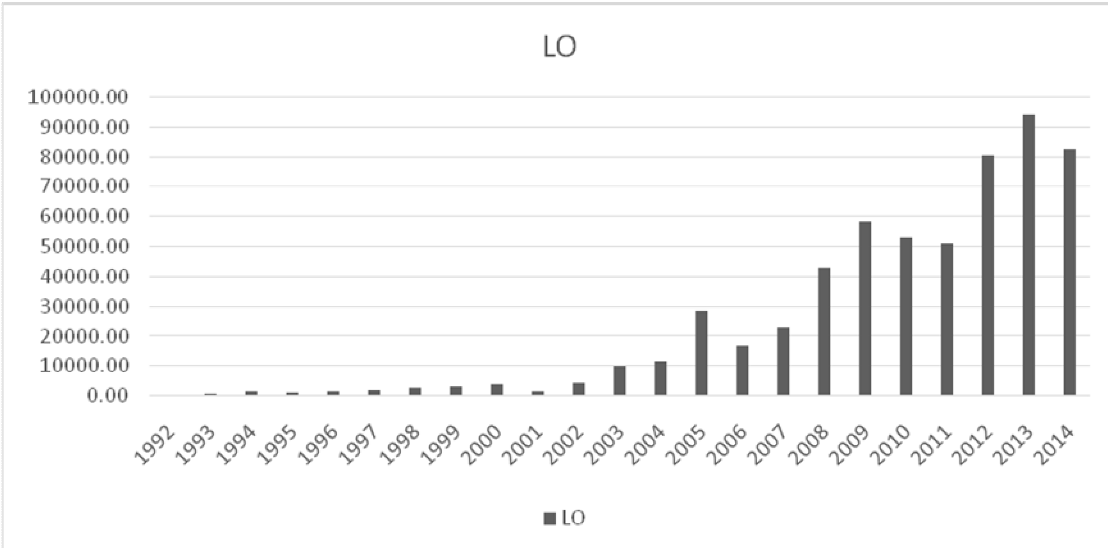


Source: Microsoft Excel, 2013.

Figure 4.3 presents the chart of Microfinance Bank investment portfolios. From the chart, the bank investment values are very small at the beginning of the period. That is, 1992 to2001, however, started rising from 2002.

Figure 4.4:MicrofinanceBanks'TotalLoan(LO)

Chart



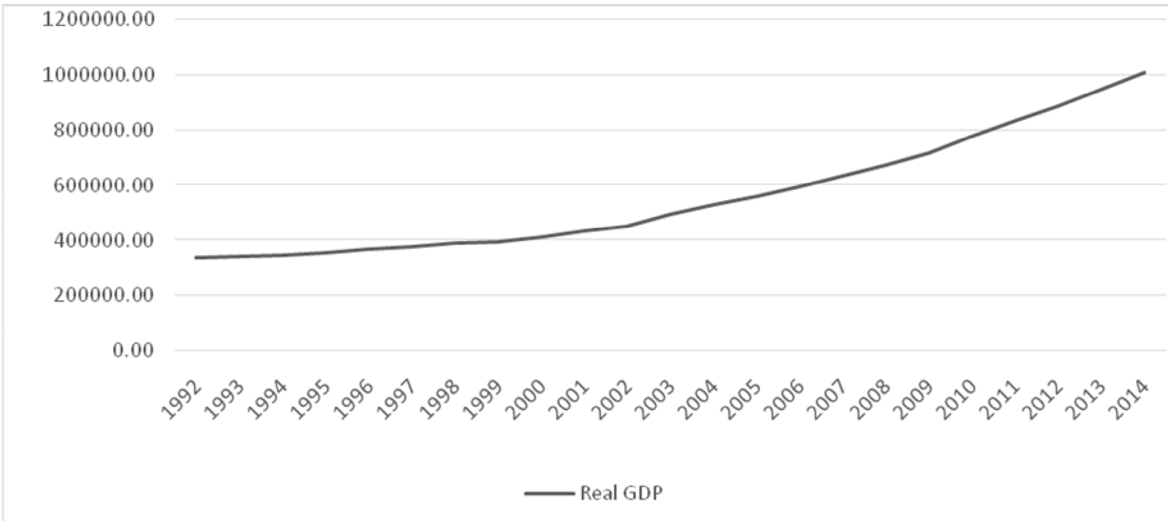
Source: Microsoft Excel, 2013.

The total Microfinance Bank loans showed a slow increase between 1992 and 2002. After the Microfinance Bank reforms in 2005, the value of loans drastically increased in its value. The value recorded an all-time increase in 2013 with a value of N94 billion.

4.5. Trend Movement of Real GDP (RGDP) Shareholders' Fund (SHF) and Investment (INV) and Loan to Total Deposits (LO)

The trend of microfinance banks performance is performed alongside Nigerian economic growth to see how the cycle has been over time.

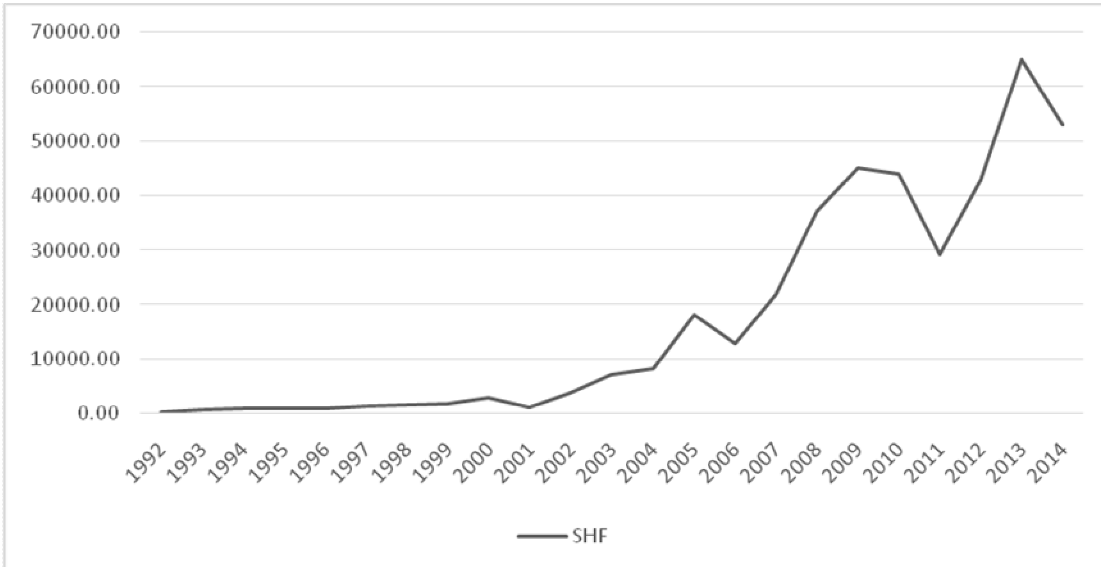
Figure 4.5: Graph of Real GDP



Source: Microsoft Excel, 2013.

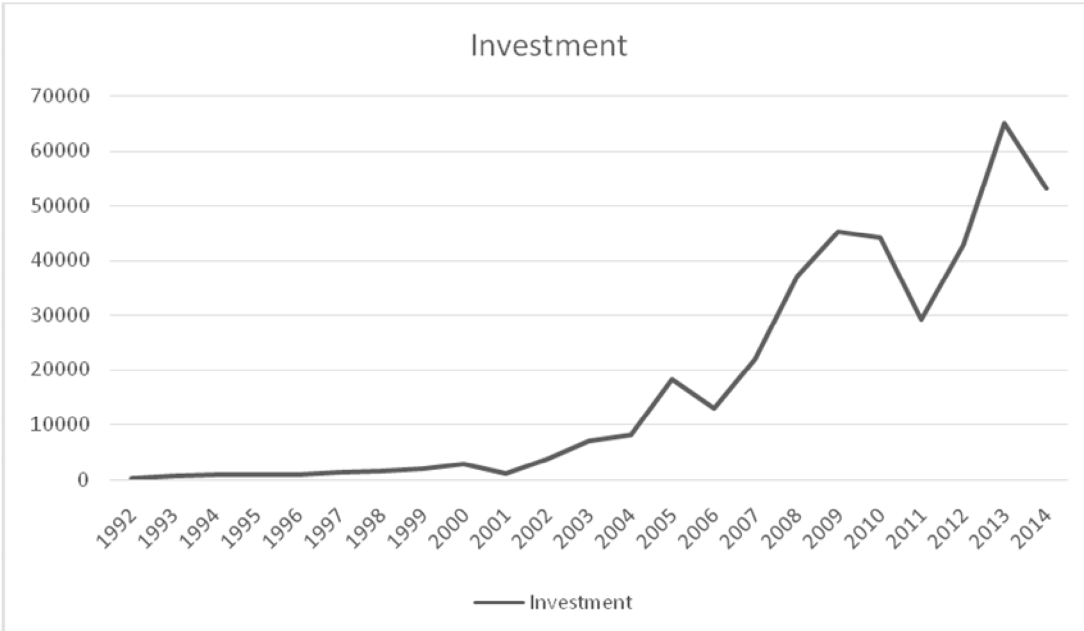
After the rebasing, Nigeria became the largest economy in African. Figure 4.2 showed a steady upward rising of real GDP. This implies that output expand every fiscal year which essentially depends on the quantum of economic activities and contribution of all sectors. Nevertheless, as economic activities are increasing, microfinance banks' performance is also increasing. Figure 4.6, 4.7 and 4.8 show Microfinance variables used to measure its performances over the period.

Figure 4.6: Graph of Microfinance Banks' Shareholders'' Fund



Source: Microsoft Excel, 2013.

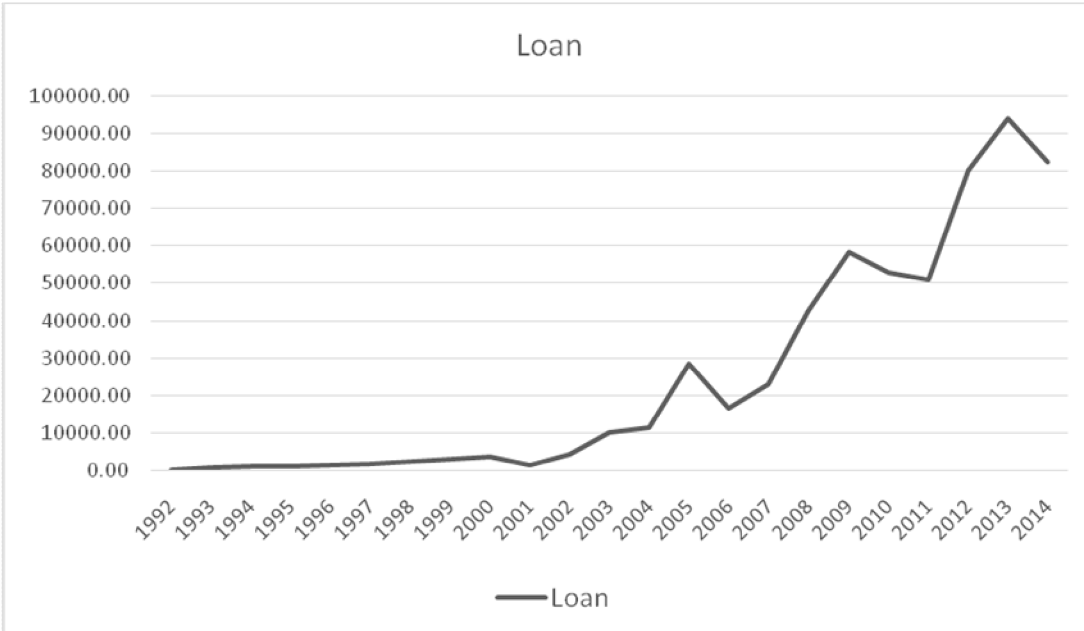
Figure 4.7: Graph of Microfinance Banks' Investment Portfolio



Source: Microsoft Excel, 2013.

Microfinance Banks' shareholders' fund and investment move almost at the same direction. They exhibit a slow growth between 1992 and 2002. After the banking reforms of 2005, the industry experiences a sharp shift upward which increased their performance in terms of profit and investment. This averagely rising trend in microfinance banks' was in consonance with the growing rate of Nigerian economy.

Figure 4.8: Graph of Microfinance Banks' Total Loan



Source: Microsoft Excel, 2013.

However, the total loans in Figure 4.8, showed slow rising trend between 1992 and 200 2. From 2004 to 2014 it showed an upward movement, which was as a result of huge investment in the bank. This is in line with the steady increases in both the shareholders' fun and investment. The recapitalization of 2005 and the Sansui reform program in 2009 and 2010 positively contributed to the huge loans from Microfinance Banks.

4.6. Regression Analysis

Table 4.3: OLS Estimation of Results

Variable	Coefficient		Std. Error	t-Statistic
LOG(SHF)	1.97***		0.55	3.56
LOG(INV)	1.98***		0.49	4.03
LOG(LODP)	0.25**		0.12	2.30
C	10.63***		0.19	55.40
R-squared	0.95	F-statistic		129.47***
		Durbin-Watson		
Adjusted R-squared	0.95	stat		1.43

Source: E-views 8. *, ** and *** are 10%, 5% and 1% level of significance respectively.

Note that log of real GDP is dependent variable;

4.7. Interpretation of Results

The performance of Microfinance Banks is represented by the value of shareholders' fund, investment and loans to economic activities. These performance indicators mentioned showed that they are positively significant with real GDP. This implies that proportional changes in Microfinance Banks' shareholders' fund, investment and total loans will respond with a proportional values of 1.97,1.98 and 0.25 respectively. This indicated an elastic response of real GDP to performance of Microfinance Banks except total loans that is relatively inelastic. It implies that Microfinance Banks total loans with a positive and significant coefficient, indicated a slow response from on real GDP when its value changes. From the results, we deduce that Microfinance Banks are a veritable tools push up Nigerian economy, and most of the loans from these banks are directed to Small and Medium Scale Enterprises.

Other econometric tests in the results are good. The variations of real GDP are explained by all the explanatory variables by 95%. This showed a high goodness of fit of the model which has a high fitted regression line. The overall model estimated showed that it is significant. This is conformed with the value of F-statistic of 129.47. The F-statistic stated categorically that all coefficients estimated are not equal to zero. The value of Durbin Watson (1.43) indicated that the presence of serial correlation is on the region of no decision.

4.8 **Testing of Hypotheses**

4.8.1 **Hypothesis One**

Ho_{1}: Microfinance Banks do not contribute to the investment opportunities in Nigeria.

The ordinary Least Square (OLS), estimation model shows that the Investment of Microfinance Banks (independent variable) has a positive relationship with the real GDP (dependent variable) of 1.98, using 1% level of significance. It therefore means that Microfinance Banks contribute to the investment opportunities in Nigeria. We therefore accept the alternative hypothesis which says that Microfinance Banks contribute to the investment opportunities in Nigeria.

4.8.2 **Hypothesis Two**

Ho_{2}: Microfinance Banks profitability does not contribute to the Nigeria economy.

The result from the Ordinary Least Square (OLS), estimation model revealed that the Loans of Microfinance Banks (independent variable) have a positive relationship with the real GDP (dependent variable) of 0.25, using 5% level of significance. This result proves that Microfinance Banks profitability contribute to Nigeria economy. In conclusion we therefore accept the alternative hypothesis which says that Microfinance Banks profitability contribute to the Nigeria economy.

4.8.3 **Hypothesis Three**

$Ho_{3:}$ Microfinance Banks capital formation does not have any impact on the Nigerian economy.

The Ordinary Least Square (OLS), result estimation model revealed that the shareholders' fund of Microfinance Banks (independent variable) have a positive relationship with the real GDP (dependent variable) of 1.97,using 1% level of significance. This result shows that Microfinance Banks capital formation contribute to Nigeria economy. In conclusion therefore, we accept the alternative hypothesis which says that Microfinance Banks capital formation have an impact on the Nigeria economy.

4.9. Discussion of Results

Microfinance Banks as a grass root intermediate financial institution is very vital to economic growth in Nigeria.

The results show that the variables of the shareholders' fund have a coefficient of 1.97, standard error 0.55 and t-statistic of 3.56. This shows that the shareholders' fund have a positive values and a significant relationship with the dependent variable (real GDP), which have a significant relationship on Nigerian economy.

The investment variables result has a coefficient of 1.98, standard error 0.49 and t – statistic 4.03. This implies that investments have a positive values and a significant relationship with the dependent variable real GDP, which also have significant relationship on the Nigerian economy.

Lastly, the loans have the coefficient 0.25, standard error 0.12 and the t – statistic 2.30 all the values are positive values which have a significant relationship with the real GDP (dependent variable), which have a significant relationship on Nigerian economy.

We therefore conclude in reference to the stated hypotheses that Microfinance Banks Investment profitability and capital formation have contributed to the Nigerian economy positively.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

The chapter presents the summary of findings conclusion and recommendations from the study. They are based on the finding, presented in previous chapter and are guided by the study objectives.

5.2 Summary of Findings

The summary of the findings of this work as it relates to research questions shows the following.

(i) Microfinance Banks contribute to the investment opportunities in Nigeria.

(ii) Microfinance Banks' profitability contributes to the Nigeria economy positively.

(iii) Capital formation of Microfinance Banks has a positive impact on the Nigeria economy.

5.3 Conclusion

The research work has examined the impact of Microfinance Banks on the Nigeria economy (1992 – 2014). The analysis of the data obtained in this study shows that the shareholders' fund are positively significant with real GDP. This implies that an increase in the shareholders' fund will lead to an increase in the real GDP. The investment of Microfinance Banks are positively significant with real GDP. This indicates that as the investment of Microfinance Banks increases the real GDP also increases. The total loans of Microfinance Banks are positively significant with real GDP. This means that as the total loans of Microfinance Banks increases, the real GDP also increases.

Microfinance Banks have positive relationship with the Nigerian economy represented by expanded GDP (Gross Domestic Product).

5.4. Recommendations

The impact of Microfinance Banks on the Nigeria economy is quite clear and distinct as proved by the research work. And this contribution of the Microfinance Banks in Nigeria economy is situated within the frame work of the research work since the major reason for the establishment of the Microfinance Banks is to ensure the economic growth of Nigeria.

Owing to this fact the following recommendations can be of great help in revamping the status of our Microfinance Banks at large, thus;

1. The shareholders' fund should be increased in order to expand the real GDP. This will improved the performance of the Microfinance Banks in the economy.
2. The Microfinance Banks need to increase their investment portfolios and loans in order to push up Nigeria economy.
3. Government through their monetary and economic policies should provide a suitable ground for the growth of Microfinance Banks.
4. Microfinance Banks need to put more effort in financing small and medium enterprises (SME's), their role need to be felt by the SME's in terms of growth of Nigeria economy.
5. Microfinance Banks should try to strive higher in order to implement the policies guiding the banks so as to enhance the performance of the economy through the various variables used to test the viability of Microfinance Banks in Nigeria

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Appendix

Raw Results (Eviews)

Dependent Variable: LOG(RGDP)
Method: Least Squares
Date: 01/03/08 Time: 19:58
Sample: 1992 2014
Included observations: 23

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG(SHF)	1.972675	0.553988	3.560863	0.0021
LOG(INV)	1.979501	0.491564	4.026943	0.0007
LOG(LO)	0.249901	0.108526	2.302684	0.0328
C	10.76577	0.194320	55.40222	0.0000

R-squared	0.953363	Mean dependent var	13.16975
Adjusted R-squared	0.945999	S.D. dependent var	0.362125
S.E. of regression	0.084151	Akaike info criterion	-1.955644
Sum squared resid	0.134545	Schwarz criterion	-1.758167
Log likelihood	26.48990	Hannan-Quinn criter.	-1.905979
F-statistic	129.4673	Durbin-Watson stat	1.431738
Prob(F-statistic)	0.000000		

Data for Estimation from 1992 to 2014

YEAR	SHF (N'bn)	RGDP(N'bn)	LO(N'bn)	INV(N'bn)
1992	227.00	337288.64	135.8	325.57
1993	625.30	342540.47	654.5	729.45
1994	935.40	345228.46	1,220.6	1031.59

1995	861.00	352646.22	1,129.8	956.53
1996	870.70	367218.09	1,400.2	967.17
1997	1385.80	377830.80	1,618.8	1481.85
1998	1479.30	388468.12	2,526.8	1587.96
1999	1858.40	393107.17	2,958.3	2012.21
2000	2773.60	412332.01	3,666.6	2884.86
2001	1034.80	431783.18	1,314.0	1136.07
2002	3825.60	451785.67	4,310.9	3935.32
2003	7011.10	495007.17	9,954.8	7122.59
2004	8156.40	527576.03	11,353.8	8267.83
2005	18107.30	561931.39	28,504.8	18233.41
2006	12829.82	595821.61	16,450.2	12953.66
2007	21810.70	634251.14	22,850.2	21949.09
2008	37021.80	672202.55	42,753.1	37161.24
2009	45166.00	718977.33	58,215.7	45304.64
2010	43997.50	776332.21	52,867.5	44125.65
2011	29094.80	834000.83	50,928.3	29232.65
2012	42829.10	888893.00	80,127.9	42966.43
2013	64939.00	950114.03	94,055.6	65058.41
2014	53039.03	1009211.12	82,421.1	53161.34

Source: Central Bank of Nigeria, Statistical Bulletin, 2014.

Descriptive Statistics

Statistics	RGDP	SHF	INV	LO
Mean	559328.1	17386.06	17503.72	55.66913
Median	495007.2	7011.100	7122.590	55.02000
Maximum	1009211.	64939.00	65058.41	79.16000
Minimum	337288.6	227.00	325.5700	23.43000
Std. Dev.	212939.2	20474.74	20484.70	15.35520

Source: E-views 8.