

Deposit Mobilization and Financial Performance of Microfinance Banks in Nigeria

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Abstract

*The purpose of the study was deposit mobilization and financial performance of microfinance banks in Nigeria. The specific objectives were to: investigate the effect of time deposits on the financial performance (ROA) of microfinance banks in Nigeria; ascertain the effect of microfinance bank loans on the financial performance (ROA) of microfinance banks in Nigeria; assess the effect of real interest rate on the financial performance (ROA) of microfinance banks in Nigeria; and examine the effect of gross capital formation on the financial performance (ROA) of microfinance banks in Nigeria. This study utilized the exploratory research design to empirically analyze the effects of deposit mobilization on the financial performance of microfinance banks in Nigeria. Secondary data, time-series and cross-sectional data were used in the study. Data for the study were gathered from annual reports of various microfinance banks in the selected states in Nigeria, as well as institutional sources like the CBN statistical bulletins, and the NDIC reports and records. Panel data analysis was employed in the study. From the result of these analyses, the findings are summarized as follows: there was a significant negative effect of time deposit on the financial performance of microfinance banks in Nigeria, there was a non-significant positive effect of microfinance bank loans on the financial performance of microfinance banks in Nigeria, **and** there was a significant positive effect of both the real interest rate and the gross capital formation on the financial performance of microfinance banks in Nigeria. The study recommended that microfinance banks should develop more aggressive strategies such as prize-linked savings, etc towards marketing as well as mobilizing more deposits, which are indispensable tools towards the profitability of the banks. **It was also recommended that microfinance banks should facilitate financial settlement by influencing money market rates and aspiring to be involved in international payments.***

Keywords: *Deposit mobilization, time deposits, microfinance bank loans, real interest rate, gross capital formation, financial performance, ROA*

Introduction

The banking sector generally, and the microfinance banking sub-sector in particular depend on customers' deposits to advance credit to its clients. According to Sharma (2009), bank credits and bank deposits are very closely related to each other; they constitute two sides of the same coin on the balance sheets of banks. Microfinance Institutions thrive on their ability to generate income majorly through lending activities (Churchill and Frankiewicz (2006). The lending activities are made possible if the banks could mobilize adequate deposits (funds) from their customers. Since microfinance banks depend on depositors' money as a source of fund, it

means there is a relationship between the ability of these banks to mobilize deposits and the amount of credit granted to their customers.

The success of the banking industry is, to a large extent, traceable to the deposit mobilization ability of the banks (Mbat, 2011). Deposit mobilization is of great importance to the performance of banks, as this is normally considered a cost-effective source of working fund. Mobilization of deposits for a bank is as essential as blood is to the human body. To enhance profitability, banks take steps to minimize expenditure (costs) and focus more on mobilizing low-cost deposits (Sylvester, 2010). Furthermore, performance is measured on deposit mix and the quantum of low-cost deposits in the mix among others. The interest paid on deposit constitutes a big burden on banks, thus making the mobilization of low-cost deposits such as current account and savings account deposits imperative for both commercial and microfinance banks (Anuya, 2012).

Deposit mobilization is the collection of cash or funds by a financial institution from the public through its current, savings, time/fixed deposit accounts or other specialized schemes such as overnight placements and call deposits. Since deposits are normally considered as a cost-effective source of working fund, the bank's ability to lend more as well as its success greatly lies on its deposit mobilization capability. However, the bank's ability to manage and mobilize enough funds from the public through its current, savings, time/fixed deposit accounts and other specialized schemes will depend on the method employed in this highly competitive industry (Digaria, 2011).

Managing deposits is not possible without knowing and controlling the factors affecting it. Various studies explained different factors affecting microfinance bank deposits. Kelvin (2011) opined that microfinance banks are important financial intermediaries serving the general public in any society. This study is therefore an attempt to investigate the effects that deposit mobilization have on the financial performance of microfinance banks in Nigeria. Moreover, previous studies on similar topics had mixed results, some of which were significant while some were not significant; and some were positive while others were negative. The specific objectives were to:

- i) investigate the effect of time deposits on the financial performance (ROA) of microfinance banks in Nigeria;
- ii) ascertain the effect of microfinance bank loans on the financial performance (ROA) of microfinance banks in Nigeria;
- iii) assess the effect of real interest rate on the financial performance (ROA) of microfinance banks in Nigeria; and
- iv) examine the effect of gross capital formation on the financial performance (ROA) of microfinance banks in Nigeria.

Conceptual Review

Deposit mobilization

According to Katang and Ntui (2017), in the most basic terms, microfinance banks take deposits from individual and institutional customers, which they use to extend credit to other customers in need of funds. They make money by earning more interest from borrowers than they pay to those whose deposits they accept. They are different from investment banks. According to Kazi (2012), deposit mobilization is a scheme intended to encourage customers

to deposit more money with the banking institution, and this money in turn is used by the bank to disburse more loans and generate additional revenue for them. The main business of banks, microfinance banks inclusive, is accepting deposits and granting loans. The more the loans the institution disburses the more profit they are likely to make.

Also, microfinance finance institutions do not have a lot of their own money to give as loans. They depend on customers' deposits to generate funds for granting loans to other customers (Samson, 2013). Traditionally, customers of microfinance institutions walk to the banking hall to deposit money. This method of savings mobilization is not able to mop up enough savings, particularly with the increasing prominence of ICT/online banking globally. Acha (2012) posits that in response to the problem of inability to mobilize enough savings, the World Bank Development Report (2008) stated that many microfinance institutions had devised mechanisms of generating savings, including lowering of administrative costs.

Time Deposit

These deposits are kept by the bank for a specified period of time per the agreement between the bank and depositor (Agene, 2002). Higher interest rate is paid by the banks for such deposits depending on the amount of deposit and the length of period for keeping the deposits provided there is no breach of the agreement.

Microfinance loans

Microfinance Institutions (MFIs) provide similar products and services to their customers as formal sector financial institutions, but the scale and method of delivery differ. The fundamental services of savings, loans, and insurance are the same. Notwithstanding, to date most efforts to formalize microfinance have focused on enterprise lending (loans for enterprise formation and development) which remain by far today the dominant product offered by MFIs. Increasingly MFIs have begun to offer additional products, such as savings, consumption or emergency loans, insurance, and business education. The context and rise of microfinance products has triggered arguments that there is a need for savings and insurance services for the poor and not just credit products.

Microfinance Institutions need to provide tailored lending services for the poor instead of rigid loan products. Microfinance loans are most often extended without traditional collateral. If physical collateral were a requirement for borrowing, most, MFI clientele would be unable to participate due to their extreme poverty level. Because borrowers do not have physical capital, MFIs focus on using social collateral, via group and character lending. Within the lending functions of microfinance Institutions, it is useful to divide loans into enterprise loans and consumption/emergency loans. As mentioned above, the loan programs typical of MFIs almost entirely consist of enterprise loans.

The demand for consumption/emergency loans is evident in developing countries by the thriving business of the local moneylenders. Although stereotyped as a loan shark preying on the desperation of the poor by charging exorbitant interest rates and employing unsavory collection methods, the traditional moneylender provides a valuable service for poor people who require quick and flexible infusions of cash to meet immediate and pressing consumption needs or to cope with emergencies. Like savings, consumption/emergency loans form an

integral component of poor households' risk management and coping strategies (Orji, 2012). Those in the microfinance industry who assumed that the introduction of formal MFIs like Microfinance banks, would drive the traditional money lenders out of business have been shocked to learn that the demand for moneylenders has remained robust, even among clients of microfinance programs.

Interest rate

Interest rate is the reward paid by a borrower (debtor) to a lender (creditor) for the use of money for a period, and it is expressed in percentage terms per annum (pa). Interest rate is also quite often referred to as the price of money. Interest rate is not determined by supply and demand; it is controlled by the Central Bank (and there are good reasons for this). All other interest rates are a function of current short-term rates and expectations as to where they will be in the future. Supply and demand forces do enter the equation - to the extent that the Central Bank reacts to these forces with its administratively determined interest rate - the policy interest rate (PIR).

They do play a role in the rate determination in longer term obligations, but the Policy Interest Rate (PIR) remains the anchor. The term interest rate can be quite confusing to those unfamiliar with the financial markets. The rate of interest is the price or fee paid by a borrower of money to the lender for the use of the money for a period, divided by the amount borrowed. The borrower is thus advancing consumption and paying for this privilege. From the perspective of the lender, the price or fee charged is his / her compensation for delaying consumption for the period of the loan. Simply therefore, there are two elements to the rate of interest, the price or fee paid and the amount loaned / borrowed.

Gross capital formation

Gross capital formation is a component of the expenditure on gross domestic product that indicates how much of the new value added in an economy is invested rather than consumed. It consists of outlays on additions to the fixed assets of the economy plus net changes in the level of inventories (Shantann, 2009). It occurs in three stages, which are the creation of savings, the mobilization of savings, and investment of savings. It is also called investment and defined as the acquisition of produced assets.

Financial performance

Financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives are being accomplished or have been accomplished. It is used to measure firm's overall financial health over a given period of time and could equally be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. The significant changes that have occurred in the financial sectors in the advanced economies have increased the importance of financial performance analysis for modern banks.

The new operating environment is characterized by more intense competition and a movement towards increasing market-oriented banking system. It is not surprising that the increased riskiness of the environment in which banks operate has engendered the need for prudential regulations. Performance analysis is an important tool used by various agents operating either internally in the banks (e.g. managers) or who form part of the bank's external operating environment (e.g. regulators) (Casu, 2006). For purposes of clarity, financial performance

indicators and financial performance measurement have been carefully distinguished by various researchers in different studies.

Relationship between level of Deposits and Banks Performance

Nafula (2003) conducted an econometric analysis on the bank portfolios and bank Earnings in Kenya. The results showed that, except for customer deposits and investments in subsidiary companies, all other factors like loans and advances, certificate of deposit, government securities, deposit balances from other banks, placements, loans and advances to building societies and banking institutions were found positive. Generally, customers' deposits, which include demand deposits, savings deposits and time deposits, are proxies for receivable deposits. These deposits also constitute the cheapest source of funds available to both commercial and microfinance banks. Therefore, the performance of a commercial or microfinance bank is related to its ability to attract individual deposits. Therefore, one way to improve a bank's profitability or earnings is to formulate aggressive policies for attracting personal deposits. However, the Central Bank of Kenya requires that banks retain a certain proportion of their deposits (liquid cash) with themselves. In her study results, the customers deposits variable enters the equation negatively with very significant coefficients in all the regressions.

Theoretical framework

For the purpose of this research work, the following theories are deemed relevant.

Bank-led theory

The Bank-led theory or model was postulated by Lyman, Ivatury and Staschen (2006). The model offers a distinct alternative to conventional branch-based banking in that the customers conduct their financial transactions through a whole range of retail agents instead of at bank branches or through bank employees. The bank is the ultimate provider of financial services and is the institution in which customers maintain their accounts. Retail agents have face-to-face interaction with customers and perform cash-in/cash-out functions much as a branch-based teller would take deposits and process withdrawals. Virtually any outlet that handles cash and is located near customers could potentially serve as a retail agent. Whatever the establishment, each retail agent is outfitted to communicate electronically with the bank for which it is working. The equipment may be a mobile phone or an electronic point-of-sale (POS) terminal that reads cards. Once an account is established or loan approved, the customer goes to the retail agent to conduct all or certain financial transactions.

The Supply-Led Finance Theory

This theory was first developed by Patrick (1966), who stressed that "finance is one of the leading aspects of economic development". The Supply-led finance theory is growth inducing or growth induced, which means finance is the most significant factor for promoting economic development. The provision of funds through financial institutions to support the creation, transformation, expansion of industries and developmental projects is an element of the supply-led theory. Furthermore, the supply-led finance theory can simply be described as the establishment of financial institutions in some areas before their products and services are effectively demanded.

Pius Okigbo's Financial Review Committee recommendations of 1976 led to the establishment of the Rural Banking Schemes in 1977, and the DFRRI memorandum of 1989 led to the introduction of the Community Banking System in 1990 to help encourage savings mobilization and credit expansion. Both events were direct reactions to the supply-led finance theory. Access to supply leading finance creates enabling financial environment for entrepreneurs to think and grow big.

The rate of growth of the Nigerian economy cannot be fully examined without a close look at the contributions of capital formation. For a country to develop and grow, it must divert part of its resources from current consumption and invest them in capital formation. Capital formation has been recognized as an important determinant of growth in the Nigerian economy. A high rate of capital formation leads to a high rate of productivity which brings about economic growth. No country has achieved sustained economic growth without substantial investment in capital formation.

Financial Intermediation Theory

This theory was advanced by Diamond in 1984. The current financial intermediation theory builds on the notion that intermediaries serve to reduce transaction costs and information asymmetries. As developments in information technology, deregulation, deepening of the financial markets, etc. tend to reduce transaction costs and information asymmetries, it is envisaged that the financial intermediation theory might eventually become useless. This contrasts with the practitioner's view of financial intermediation as a value-creating economic process. It also conflicts with the continuing and increasing economic importance of financial intermediaries.

From this paradox, it is concluded that current financial intermediation theory fails to provide a satisfactory understanding of the existence of financial intermediaries. Different participants in financial markets; firms, financial intermediaries, rating agencies, and investors typically have varying amounts of information about, or differing abilities to determine the value of securities offered in the market. Two types of asymmetric information problems commonly arising for nonfinancial firms include the following: a firm issuing a security has more information about the potential cash flows associated with the security than do investors; some investors have more information about a security's value (or better ability to value the security) than other investors; that is, some investors are "informed" whereas others are uninformed."

Empirical Review of Related Literature

Some studies had been conducted across the globe to investigate the relationship between deposit mobilization and the performance of Microfinance banks as presented here under. Koufopoulos (2023) investigated the correlation between deposit mobilization and financial performance of commercial banks in Nigeria. Data were sourced from secondary using annual report of banks. The study adopted multiple regression and the result revealed that deposit mobilization positively affected the financial performance of commercial banks in Nigeria.

Mamo (2017), conducted an investigation of determinants of deposit mobilization in commercial banks of Ethiopia. Multiple linear regression was adopted for this study, the variables were competitors, interest, branches and loan while dependent variable is total deposit. The result of the econometric indicated that loan provision, branch expansion and

number of customers were found to have significant positive impact to induce deposit mobilization.

Akumal, Doku, Awer (2017) investigate the relationship between deposit mobilization, credit risk and profitability of Ghanaian banks from 2002 to 2011. Secondary data were obtained from financial statements of 17 Ghanaian banks who have operated consistently within the study period. Panel regression analysis is used in the estimation of a function relating to the return on assets (ROA) to measures of credit risk and deposit mobilization as well a few control variables. The results reveal a significantly positive relationship between credit risk, deposit mobilization, growth in interest income, capital adequacy ratio and profitability of Ghanaian banks. However, a significantly negative relationship between year-on-year inflation and ROA was found. With regard to the relationship between bank size and profitability, the results found no significant association between the two. The research suggests that profitable banks in Ghana depend more on bank deposits as one of their main financing options. In the Ghanaian case, a high proportion (64.33%) of total liabilities is represented by bank deposits; attesting to the fact that Ghanaian banks largely depend on deposits for financing their operations. The study recommends that banks should implement effective strategies to mobilize more deposits from both the formal an informal sector of the economy. They should also invest heavily in credit risk management. Both strategies will enhance their profitability.

Venkati (2016), examined the impact of banks deposit mobilization and credit financing on capital formation in Ethiopia. Ordinary Least Square method was adopted for the study, Gross fixed capital formation was used as dependent variable while independent variables included Bank credit, bank deposit and bank investment. The study found that bank deposit, bank credit and national saving had a great role on capital formation in Ethiopia.

Andinet (2016), had examined factors influencing deposit mobilization in private commercial banks in Ethiopia by explaining variables such as number of bank branches, deposit interest rate, liquid asset to deposit ratio, lagged value of bank deposits, net interest margin, inflation rate and economic growth (GDP). He showed that number of bank branches, deposit interest rate, net interest margin and GDP were significantly and positively correlated with total deposit while Lagged value of bank deposit was significantly and negatively correlated with total deposits.

Sisay (2013), had examined deposit mobilization of private commercial banks at Awash International Bank S.C. and he had assessed reconstruction of Addis Ababa roads, Aggressive branch expansion of CBE, condominium house construction program, peoples' attitude towards using private banks and poor parking area strongly influenced the deposit mobilization process. The Commercial Bank of Ethiopia has developed a variety of deposit mobilization strategies to meet its stretched financial targets. As a means to achieve this, the bank launched the Prize Linked Saving (PLS) program in 2012 and had conducted six rounds of the program. The effects of PLS on deposit mobilization measured through comparing deposit growth performance during PLS periods than without it, whether attracting new customers and influence customer to save regularly and to save extra deposits in the bank. Additionally, deposits determined through introducing a lottery savings among customers with lowest savings and income.

Research methodology

Research Design

This study utilized the exploratory research design to empirically analyze the effects of deposit mobilization on the financial performance of microfinance banks in Nigeria.

Sources of Data

Secondary data, time-series and cross-sectional data were used in the study. Data for the study were gathered from annual reports of various microfinance banks in the selected states in Nigeria, as well as institutional sources like the CBN statistical bulletins, and the NDIC reports and records. The data were collected in line with the desk survey method to reflect the research questions and hypotheses of the study.

Model specification

It is crucial to identify the framework used for analysis in any empirical investigation. Return on Asset (ROA) was used in this study as proxy for financial performance representing the dependent variable; while deposit mobilization was the independent variable, disaggregated into Time deposit (TD) and Microfinance bank loans (MFL). While interest rate (RINTR) and Gross Capital Formation (GCF) were used as control variables. The study adopted pooled OLS, fixed effects and random effects models for empirical analysis. The pooled ordinary least square, fixed effect and Random effect models are the appropriate models for panel data.

This is presented in a functional model as:

$$ROA = f(TD + MFL + RINTR + GCF) \quad \text{--- Eqn 3.1}$$

The panel regression equation is translated into its explicit form as follows:

$$ROA = \alpha_0 + \beta_1 TD + \beta_2 MFL + \beta_3 RINTR + \beta_4 GCF + \mu_t \quad \text{--- Eqn 3.2}$$

Where

ROA = Return on Asset, RINTR= Real interest rate, TD = Time deposit, GCF = Gross capital formation, MFL = Microfinance bank Loans, α = the intercept or constant term

β_1 - β_4 = Coefficients estimated

Data Analysis

TABLE 1

Result of Test of Panel Random Analysis

Dependent Variable: ROA					
Variable	Coefficient	Std. Error	t-Statistic	Prob.	
TD	-0.141755	0.084549	-1.676600	0.0969***	
MFL	2.060533	7.762449	0.268025	0.7917	
RINTR	0.338534	0.046223	7.323976	0.0000*	
GCF	0.791398	0.097017	8.157350	0.0000*	
C	0.870638	0.070451	12.35811	0.0000*	
Effects Specification					
			S.D.	Rho	
Cross-section random			2.285763	0.0559	
Idiosyncratic random			9.396565	0.9441	

Weighted Statistic			
R-squared	0.569127	Mean dependent var	50.86264
Adjusted R-squared	0.439732	S.D. dependent var	9.632128
S.E. of regression	3.420324	Sum squared resid	8430.539
F-statistic	6.351597	Durbin-Watson stat	1.267199
Prob(F-statistic)	0.000157		

Unweighted Statistic			
R-squared	0.092528	Mean dependent var	64.05545
Sum squared resid	8878.834	Durbin-Watson stat	1.203218

Source: E-Views 10.0 Statistical Software

*Significant at 1% level of significance

**Significant at 5% level of significance

TABLE 2
Panel Fixed Effect Regression Analysis

Dependent Variable: ROA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
TD	0.048159	0.106046	0.454131	0.6509
MFL	0.597596	0.182470	3.275032	0.0045*
RINTR	0.799397	0.053727	14.87876	0.0000*
GCF	0.083102	0.191329	0.43431	0.6685
C	0.014796	0.095652	0.154685	0.8785

Effects Specification

Cross-section fixed (dummy variables)

Weighted Statistics			
R-squared	0.366500	Mean dependent var	80.26774
Adjusted R-squared	0.278104	S.D. dependent var	29.30680
S.E. of regression	9.272467	Sum squared resid	7394.163
F-statistic	4.146142	Durbin-Watson stat	1.676513
Prob(F-statistic)	0.000042		

Unweighted Statistics			
R-squared	0.210789	Mean dependent var	64.05545
Sum squared resid	7721.748	Durbin-Watson stat	1.370822

Source: E-Views 10.0 Statistical Software

*Significant at 1% level of significance

TABLE 3
Correlated Random Effects - Hausman Test

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.483099	4	0.3230

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
TD	0.011207	-0.141755	0.038185	0.4338
MFL	0.025445	0.012600	2.019382	0.0595**
RINTR	1.923273	0.552285	3.482395	0.0029
GCF	0.096651	0.167641	0.576539	0.0000

Source: E-Views 10.0 Statistical Software.

*Significant at 1% level of significance

**Significant at 5% level of significance

The Hausmann Test

While adopting the null hypothesis that the random effect would be the most relevant and acceptable for this study, the study denied the alternative hypothesis (that its fixed effect is somewhat more useful). Given that a random effect model was chosen for the study rather than a fixed effect, since the P-value for the Hausmann test in Table 3 was 0.3230 (which is higher than 0.05).

Panel Random Effect

In Table 1 regression of different terms of deposit mobilization on financial performance of microfinance banks in Nigeria. As shown, the profitability (return on asset) of a sample of

microfinance banks increased by roughly 87.06 percent, and this gain was significant at a 5% level of significance when other variables were taken into account are held constant. By implication, the volume of demand deposit controlled by its savings and time and its impact on the level of return on asset with the strengthening influence of control variables were curtailed by about 87.06 percent in the selected microfinance banks in Nigeria. Specifically, the random effect model results from Table 1 revealed the estimated coefficient, which is time deposit and loans had an increase of 0.1987 in the performance of chosen microfinance banks in Nigeria but was significant. Clearly, the presence of control variables in these had positively improved their return on asset by about 0.1987 percent, *ceteris paribus*. Similarly, further analysis of the random effect model results.

The analysis of the random effect model results from Table 1 equally revealed that the estimated coefficient of TD {-0.1417} demonstrated that a variation in TD led to a 0.1417 decrease in the performance of microfinance banks in Nigeria and was non-significant. Table 1 also revealed that the estimated coefficient of MFL {2.060} demonstrated that variation in MFL led to a 2.060 increase in the performance of banks in Nigeria and was non-significant. It is revealed also that the estimated coefficient of RINTR {0.3385} demonstrated that a variation in RINTR led to an increase in the performance of banks in Nigeria and was non-significant. The analysis of the random effect model results from Table 1 revealed that the estimated coefficient of GCF {0.7913} demonstrated that a variation in GCF led to a 0.7913 increase in the performance of banks in Nigeria and was significant.

The R^2 value of $0.5691 = 56.91$ percent (with control variables) approximately 57 percent indicated that the variables (TD, MFL RINTR and GCF) accounted for about 57 percent of the difference in ROA. Also, the adjusted R^2 is at $0.4379 = 43.97$ percent. Adjusted R^2 measures the effect of the addition of irrelevant variables to the model and the effect on the prediction of the relationship of the variables. It is smarter than the R^2 as it does allow room for stochastic variables. In Table 1, *f*-calculated {6.35} is larger than 2.56, that is, the entire estimate is well-fitted and shows joint significance, which shows that both the independent as well as control variables are crucial at the same time.

Summary of findings

From the result of these analyses, the findings are summarized as follows:

1. There was a significant negative effect of time deposit on the financial performance of microfinance banks in Nigeria.
2. There was a non-significant positive effect of microfinance bank loans on the financial performance of microfinance banks in Nigeria.
3. There was a significant positive effect of real interest rate on the financial performance of microfinance banks in Nigeria.
4. There was a significant positive effect of gross capital formation on the financial performance of microfinance banks in Nigeria.

Conclusion

The study examined the effects of deposit mobilization on the financial performance of microfinance banks in Nigeria. The study findings revealed that there was a significant negative effect of time deposit on the financial performance of microfinance banks in Nigeria, there was a non-significant positive effect of microfinance bank loans on the financial performance of

microfinance banks in Nigeria, there was a significant positive effect of real interest rate on the financial performance of microfinance banks in Nigeria, and there was a significant positive effect of gross capital formation on the financial performance of microfinance banks in Nigeria. It is evident from the study that deposit mobilization is one of the most important functions of banking business. As such, it is an important source of working fund for microfinance banks. The role of banks in a financial market is that of financial intermediation, which makes use of loan and deposit services to effectively channel idle funds from the general public into valuable production and other investment projects that help people to reach their goals.

Recommendations

1. Banks should develop more aggressive strategies such prize-linked savings, etc towards marketing as well as mobilizing more deposits, which are indispensable tools towards the profitability of the banks.
2. Effective macroeconomic policies should be adopted to promote low inflation and stable output growth so as to boost credit expansion.
3. In performing their pivotal role in the economy, MFBs should facilitate financial settlement and have a moderating effect on the payment system, by influencing money market rates and aspiring to be involved in international payments.
4. Capital formation is influenced by the number of policy intervention programmes geared towards achieving economic growth. Therefore, management should devise strategies on capital accumulation policies like financing the acquisition of plant and machinery and other capital projects of their customers that would stimulate investment growth in the economy.

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