Effects of Financial Reforms on Economic Empowerment in Nigeria

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ABSTRACT
This study investigated the effect of interest rate deregulation on economic empowerment of Nigerians. In 1986, the Nigerian economy was liberalised to allow market forces to determine cost of funds and give competitive advantage over investible capital to the most efficient productive unit. How well this policy has engendered economic empowerment has remained issue of interest to researchers and policy makers. The study used prime lending, savings and monetary policy rate as the explanatory variables of interest rate deregulation and per capita income to proxy for economic empowerment for a time frame covering 1987 to2014. The OLS regression was employed for the analysis. The result indicated that only 10.4% of economic empowerment is explained by interest rate deregulation, thus, the policy has not engendered economic empowerment in Nigeria. Prime lending rate has positive but insignificant effect on economic empowerment. More so, savings rate and monetary policy rate have negative and insignificant effect on economic empowerment in Nigeria. The study further found that monetary policy rate has the highest and major contribution to the model which suggests that monetary policy rate is the anchor of the interest rate deregulation in Nigeria. The study thus concludes that interest rate deregulation policy has not facilitated economic empowerment in Nigeria.

Keywords: *Interest rate deregulation, monetary policy rate, economic empowerment, Nigeria*

1.0 INTRODUCTION
In the annals of Nigeria, the period between 1960 and 1986 witnessed an economic system in which the government made policies to determine the direction of the economy through fiat. This era is the regulated economic system. Under the regulated interest rate regime, interest rate was said to be repressed. According to McKinnon (1973) and Shaw (1973), financial repression arises mostly where a country imposes ceiling on deposit and lending nominal interest rates at a low level relative to inflation. The resulting low or negative interest rates discourage savings mobilization and channelling of mobilized savings through the financial system. This has negative impact on the quantity and quality of investment and hence economic growth in view of the empirical link between savings, investment and economic

growth. The Nigerian financial sector, during this era was characterized by rigid exchange and interest rate controls, mandatory sectoral allocation of bank credit and quantitative ceiling in bank credits to the private sector, all of which engendered distortions and inefficiencies that resulted to low direct investment (Ogwuma, 1996).

Following advices from international financial institutions, economists and experiences from the developed economies, the developing countries including Nigeria came to join the economic deregulation plan. Hence Nigeria started the interest rate deregulation in August 1987 (Ikhide & Alawade, 2001). Under the deregulated interest rate system, the market forces of demand and supply play a very prominent role. Customers are free to negotiate to arrive at a suitable interest rate on both deposit and loans. This study attempts to find the probable effect of interest rate deregulation on economic empowerment in Nigeria.

2.0 REVIEW OF RELATED LITERATURE

2.1 Conceptual Framework

2.1.1 Economic Empowerment

Empowerment is a central concept in the elaboration of an alternative vision of development. It encompasses both the process of emancipation, the shifts in power relations which begin to enable the oppressed to take control of their own futures, and the ultimate goal of an equitable and just society (Nikkhah, Redzuan& Abu-Samah, 2010).Empowerment as a concept has been much discussed for a number of years. According to McWhirter (1991) as cited in Nikkhah, Redzuan and Abu-Samah, (2010:), empowerment is a process by which people, organizations or groups who are powerless (a) become aware of the power dynamics at work in their life context, and (b) develop the skills and capacity for gaining some control over their lives.

In addition, Zimmerman & Rappaport (1988) as cited in Nikkhah, Redzuan and Abu-Samah (2010:) have stated that empowerment is the ability of individuals to gain control socially, politically, economically, and psychologically through (1) access to information, knowledge, and skills; (2) decision making; and (3) individual self-efficacy, community participation, and perceived control. The framework of CARE (2006) describes empowerment as: the expansion of assets and capabilities of poor people to participate in, negotiate with, influence, control, and hold accountable the institutions that affect their lives. By expansion of asset, as CARE (2006) noted, this study sees economic empowerment as the capability to earn a living above the poverty level. Alsop and Heinsohn (2005) have noted that empowerment is an increasingly familiar term within the World Bank and many other development agencies. The World Bank in this regard measures poverty level using per capita income, unemployment rate, and human capital development index among others.

Nigeria like most developing nations of the world is faced with myriad of problems and harsh realities which include poverty, unemployment, conflicts and diseases. This problem is said to be traceable to the disequilibrium between labour market requirements and essential employable skills acquired by the graduates (Diejonah & Orimolade, 1991; Dabalen, Oni & Adekola, 2000). Also, Nwokeoma (2010) reports that more than 70% of the Nigerian population lives in poverty despite the country's enormous resources. Nigeria has a low per capita income which is an indication of the existence of poverty among its citizens.

2.1.2 Interest Rate

Ibimodo (2005) cited in Akin and Adofu (2007), defined interest rate, as the rental payment for the use of credit by borrowers and return for parting with liquidity by lenders. Adebiyi

(2002) defines interest rate as the return or yield on equity or opportunity cost of deferring current consumption into the future.
In the opinion of Keynes, interest is the reward for not hoarding but for parting with liquidity for a specific period of time.

Like other prices, interest rates perform a rationing function by allocating limited supply of credit among the many competing demands. Some examples of interest rate include the saving rate, lending rate, and the discount rate.While lending rate is the rate at which banks and other financial institutions extends credit to deficit economic units, saving rate is the rate at which deposits are kept at banks. However, discount rate is the interest rate an eligible depository institution is charged by its Central Bank to borrow funds, typically for a short period (Federal Reserve Bank of Richmond, 2015). It is a window created to manage urgent liquidity needs by financial institutions.

De Angelis, Aziakpono and Faure (2005) state that interest rates play a crucial role in the efficient allocation of resources aimed at facilitating growth and development of an economy and acts as a demand management technique for achieving both internal and external balance with specific attention to deposit mobilization and credit creation for enhanced economic development.

In Nigeria, the discount rate is the Minimum Rediscount Rate, currently replaced with Monetary Policy Rate in December 2006 to make it a more functional tool to moderate market rates. According to Sanusi (2004) discount rate shall continue to serve as the anchor for determining other rates. The discount window operation is usually conducted as an overnight facility, collateralized by holdings of government debt instruments (CBN, 2013). The difference between lending rate and deposit rate is the interest rate spread. The interest rate spread is the core savings-investment process and measures of efficiency of the financial institutions in the intermediation process between savers and borrowers.

2.1.3 The Concept and Advent of Interest Rate Deregulation

Interest rates can be controlled by the government or allowed to be determined by the forces of demand and supply in the buying and selling process. When the government determines the interest rate, it is interest rate regulation while the deregulation is the case where market forces determine the rates. The use a of set of government regulations, laws and other non-market restrictions brings about financial repression notion and can prevent the financial intermediaries of a country from functioning at full capacity. The policies that cause financial repression include interest rates ceiling, liquidity ratio requirements, high bank reserve requirements capital controls, restrictions on market entries into the financial sector, credit ceilings or restrictions on directions of credit allocation, and government ownership or domination of banks. According to Afolabi (2005) government intervention in the form of interest rate ceilings and sectoral allocation of credits created highly concentrated market structure leading to monopolistic and/or oligopolistic tendencies as well as promoting other inefficiencies which caused distortions in the economy. Economists argue that financial repression prevents the efficient allocation of capital and thereby impairs economic growth. Ronald McKinnon (1973) and Shaw (1973) were the first to explicate the notion of financial repression. To enhance efficiency in allocation of capital for productive economic activities, international financial institutions and economists recommended deregulation to countries all over the world.

According to Investor's Glossary (2010) as cited in Okoh and Nkechukwu (2014), deregulation is an act by which the government regulation of a particular industry (Agricultural sector) is reduced or eliminated in order to create and foster a more efficient market place. However, the main purpose of deregulation, most often, is to weaken the government influence and forge greater competition. Technically speaking, deregulation aims at exploring the market forces in order to determine the lending and deposit rate respectively in an economy. According to Abogan, Olajide and Oloba (2014), the deregulation policy was adopted in 1987 against a crash in the international oil market and the resultant deteriorating economic condition in the country due to stringent policies in the financial sector. Adekaye pointed out that the policy was adopted to achieve fiscal balance and balance of payment stability as well as liberation of the financial system by altering and restructuring the production and consumption pattern of the economy, eliminating price distortions, reducing the heavy dependency on crude oil export and consumer goods importation, enhancing the non-exports base and achieving sustainable growth.

Deregulatory policy was a child birth of structural adjustment programme introduced in July 1986. Before the inception of deregulation the interest rate was highly regulated and characterised by frequent adjustments which was aimed at achieving the monetary objective of the period. The introduction of the deregulatory policies reduced the frequency of these adjustments. On 1st October 1987, all controls on interest rate were removed in line with the prophesies on the deregulation of the economy. Deregulation of interest rate makes the allocation of credit by price possible.

Interest rate deregulation is an economic term used to refer to a situation where by forces of demand and supply are allowed to determine the value of interest rates rather than its value being administered directly by monetary authorities. Interest rate deregulation is seen as a deviation from financial repression. It has been advocated by many economists that interest rate deregulation helps to enhance savings, boost investment and consequently help to enhance economic growth.

2.2 Theoretical Framework

The Financial Liberalization Theory put forth by Mckinnon (1973) and Shaw (1973) postulates that financial liberalization in financially repressed developing countries would induce higher savings, especially financial savings, increase credit supply, stimulate investment and hence help to boost economic growth. They both claim that interest rate regulations usually lead to low and sometimes negative real interest rates, which is the cause of unsatisfactory growth performance of developing countries. They claim that financial repression through interest rates ceiling keeps real interest rates low and thus discourages savings and consequently, stifles investment. Thus investment is constrained as a result of low savings resulting from financial repression. The quality of investment will also be low because the projects that would be undertaken under a regime of repression would have a low rate of yield. With interest rate deregulation, real interest rates would rise thereby increasing both savings and investment. The increased investment results in the rationing out of low-yielding projects and subsequent undertaking of high-yielding projects. This would therefore boost economic growth.

Generally, the Keynesian theory implies that low interest rate as a component of cost administered is detrimental to increase savings and hence investment demand. They argue that increase in the real interest rate will have strong positive effects on savings which can be utilized in investment, as those with excess liquidity will be encouraged to save because of

the high interest rate. Thus banks will have excess money to lend to investors for investment purposes thereby raising the volume of productive investment. Both Mckinnon and Shaw advocated that interest rates deregulation was needed to remedy the problems caused by financial repressive policy of developing countries. The researcher hereby adopts this theory as the main theoretical framework of this research.

2.3 Empirical Studies

The review of empirical studies on the effect of interest rate deregulation on economic growth is shown on Table 2.1 below.

Table 1: Tabulated review of empirical studies on the effect of interest rate deregulation on economic growth in Nigeria

SN	Authors and Year	Variables used	Scope	Tool of Analyses	Major Findings
1	Udoka, C. O. &Anyingang, R. A. (2012).	Y: Gross demotic product (income) X: Interest rate (prime)	Nigeria, Annual time series of 1970 to 2010	Ordinary least square, Simple regression analysis and T-test for test of difference	Inverse relationship between interest rate and economic growth; economic growth after interest rate deregulation is better than growth before deregulation.
2	Obamuyi, T. M. (2009).	Y: real GDP growth rate, Xs: real lending interest rate, real deposit interest rate, inflation rate, ratio of broad money to GDP, ratio of gross domestic savings to GDP and dummy variable for regulation and deregulation of interest rate	Nigeria, Annual time series of 1970 – 2006	co-integration and error correction model;	Long-run relationship between interest rates and economic growth; and short run dynamisms
3	Obute C., Adyorough, A., &Itodo, A. I. (2012)	Model 1 = Y: Total saving; Xs: real deposit rate, Money supply Model 2 = Y: investment; Xs: real lending rate, total savings, population Model 3 = Y: Real GDP; X: Investment Model 4: Y: Real GDP; Xs: real lending rate, government expenditure	Nigeria, Annual time series: deregulation era (1987-2009) and the regulation era (1964-1986).	Ordinary least square,	Real Lending Rate does not have a significant impact on economic growth before and after the deregulation exercise.
4	Obamuyi, T. M. &Olorunfemi, S. (2011).	Y: real growth rate of gross domestic product; Xs: Real lending interest rate, real deposit interest rate, inflation rate, ratio of broad money to GDP, ratio	Nigeria, Annual time series of 1970-2006.	cointegration and error correction model	financial reform and interest rates have significant impact on economic growth

		of gross domestic savings to GDP and Dummy is the financial reforms variable used to capture the shift in financial policy from regulation to deregulation of interest rates in1987			
5	Ezeanyeji, C. I. (2014).	Y: Agricultural Commodities Xs: Interest rate, Agricultural credit, Exchange rate.	Nigeria, Annual time series of 1986 to 2010	Ordinary least square regression	Interest rate deregulation has significant and positive impact on agricultural productivity
6	Abogan, O. P., Olajide, E. &Oloba, O. (2014).	Questionnaire: Y: Bank profitability X: Nigeria is a Deregulated Economy	Forty [40] staff of selected commercial banks in Ilesa metropolis	correlation, regression analysis as well as analysis of variance (ANOVA)	There is a negative relationship between deregulation of the economy and the profitability base of commercial banks
7	Amassoma, J. D., Nwosa, P. I. &Ofere, A. F. (2011)	Y: Total agricultural output Xs: Bank lending rate, credit available to Agricultural sector, credit available to core private sector, investment, exchange rate, and interest rate spread	Nigeria, Annual time series of 1986 to 2009	co-integration and error correction techniques	Interest deregulation had a positive and significance effect on agricultural productivity.
8	Adofu, I., Abula, M. &Audu, S. I. (2010).	Y: Agricultural output Xs: Interest rate, Exchange rate	Nigeria, Annual time series of 1986 to 2005	Ordinary Least Square method	Interest rate deregulation has significant and positive impact on Agricultural productivity
9	Obokoh, L. O., Ehiobuche, C. &Akinlo, A. E. (2011).	Y: Operation cost X: interest rate	Questionnaire and semi-structured interview methods to obtain data from manufacturing SMEs in Lagos State.	Chi-Square test,	Significant positive relationship between high interest rates and operational cost of manufacturing SMEs after financial market liberalisation
10	Itodo, A. I., Eche, E. &Kamo, K.	Y: Gross domestic product growth rate Xs: Lending rate, Savings rate Inflation rate, Exchange Rate and lagged Gross	Nigeria, the regulation era (1970-1986) and deregulation	Ordinary Least Square regression	Deregulated interest rate has an insignificant impact on economic growth.

	(2012)	domestic product growth rate	era (1987 2009).		
11	Okoh, J. I. &Nkechukwu, G. C. (2014).	Y: Real Gross Domestic Product Xs: Interest rate, Investment, Trade openness, Real exchange rate, Inflation	Nigeria, Annual time series of 1986-2010	Ordinary Least Square Regression	Deregulated interest rate has significant positive effect on economic growth.

A cursory look at Table 1 above revealed that the Empirical studies in Nigeria have drawn a divide in the effect of interest rate deregulation on economic growth and empowerment. The anti-deregulation researchers posit that interest rate deregulation does not have significant positive effect on growth and economic wellbeing of the citizenry (Udoka&Anyingang, 2012; Obute, Adyorough, &Itodo, 2012; Itodo, Eche &Kamo, 2012 and Abogan, Olajide, &Oloba, 2014). According to Obute C., Adyorough, A., &Itodo, A. I. (2012), the deregulation exercise has remained incomplete in the system and as such deregulation of interest rates is still tied to the monetary policy rate. They posit that this situation will negatively affect efficient allocation of funds and hence economic productivity.

However, the pro-interest rate deregulation posits that interest rate has positive effect on economic growth, vis-à-vis empowerment. These researchers include Obamuyi (2009); Adofu, Abula and Audu (2010); Amassoma, Nwosa and Ofere (2011); Obokoh, Ehiobuche and Akinlo (2011);Ezeanyeji (2014) and Okoh and Nkechukwu (2014). Most of these studies used only the lending rate to proxy for interest rate deregulation (Obamuyi, 2009; Adofu, Abula & Audu, 2010; Obokoh, Ehiobuche & Akinlo,2011; Ezeanyeji,2014 and Okoh & Nkechukwu, 2014) while Amassoma, Nwosa and Ofere (2011) used interest rate spread. The core of the gap in these studies is non- inclusion of savings and monetary policy rate especially as literature has noted that monetary policy rate is the anchor of all other interest rates in Nigeri (Sanusi, 2004). This study thus intends to incorporate these variables alongside lending rate to understand the effect of interest rate deregulation variables (lending, saving and monetary policy rates) on economic empowerment in Nigeria.

3.0 METHODOLOGY

The study is an expost fact research design with data for analyses based on past records. The data are time series and obtained from the CBN Statistical Bulletin, 2014 and World Development Indicator (WDI), 2014; online editions. The data covered 1987 to 2014 being the periods when deregulation has been operational in Nigeria.

The model for the study aims to explain that interest rate deregulation would enhance economic empowerment. The model is based on the Keynesian theoretical framework as explained in the review of related literature. The functional notation of the model is thus:

$SL = f(PLR, SR, MPR)$

The model can be rewritten as:

$SL = \alpha + \beta_1 PLR + \beta_2 SR + \beta_3 MPR + \mu$

Where:

SL = Standard of Living proxied by per capita income.
PLR = Prime Lending Rate
SR = Savings Deposit Rae
MPR = Monetary Policy Rate

α is the constant, β_1, β_2, and β_3 are the coefficients of prime lending rate, savings deposit rate and monetary policy rate respectively.

The study made use of Ordinary Least Square (OLS) regression analysis to show the extent of the relationship and influence between interest rate deregulation and economic empowerment in Nigeria.The Ordinary Least Squares Theorem is supported by Koutsoyiannis (1985) as the Best Linear Unbiased Estimator (BLUE), thus this study adopted it. Given that the satisfaction of the assumptions of the classical linear regression is a necessary condition for achieving BLUE, (Gujarati 2003), the study tested for multicollinearity and autocorrelation.

Decision rule: If the regression coefficient is positive and the t-value is less than 0.05, it is an indication that there is positive relationship between the dependent and independent variables. Also, if the F-statistics (value) is less than 0.05, it indicates overall significance of the model. The coefficient of determination (R^2) was used to measure the rate at which the dependent variable is explained by independent variables. Finally, if the Durbin Watson test is approximately two (2), it shows the absence of autocorrelation.

4.0 RESULTS AND INTERPRETATION

Table 2:Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
SL	28	-3.2778	7.7951	2.499636	2.9483401
PLR	28	13.54	29.80	19.2664	3.64292
SR	28	1.41	18.80	7.6539	5.69887
MPR	28	6.13	26.00	13.8282	4.00996

Source: Authors computation, with SPSS 20.

From the result on Table 2 above, the mean of the variables are Standard of Living (SL) = 2.50, Prime Lending Rate (PLR) = 19.27, Savings Rate (SR) = 7.65 and Monetary Policy Rate (MPR) = 13.83. The standard Deviation for PLR, SR, and MPR are smaller than their respective Mean which suggests that the variables are closely distributed. However, the standard deviation of SL is slightly larger than the Mean which implies that the Mean is not closely distributed.

Table 3: Correlation Coefficients of the variables of the study

		SL	PLR	SR	MPR
PLR	Pearson Correlation	-.122	1		
	Sig. (2-tailed)	.538			
SR	Pearson Correlation	-.256	**.564****	1	
	Sig. (2-tailed)	.189	**.002**		
MPR	Pearson Correlation	-.293	**.540****	**.585****	1
	Sig. (2-tailed)	.130	**.003**	**.001**	

*. Correlation is significant at the 0.05 level (2-tailed).
Source: Authors computation, with SPSS 20.

Table 4: Variance inflation factors (VIF) and tolerances for individual variables

Model	Collinearity Statistics

		Tolerance	VIF
1	(Constant)		
	PLR	.614	1.628
	SR	.571	1.750
	MPR	.593	1.686

Source: Authors computation, with SPSS 20.

The result on Table 3 shows that the independent variables have correlation coefficients below 0.7. This suggests that there is no multicolinearity. This confirmes absence of multicolinearity among the independent variables. Colinearity Statistics are further computed as shown on Table 4. The tolerance is the percentage of the variance in a given predictor that cannot be explained by the other predictors. Tolerance ranges between 0 and 1. Tolerances close to 0 suggest multicolinearity and thus the standard error of the regression coefficients will be inflated. Also, a variance inflation factor (VIF) greater than 2 is usually considered problematic. From the results, the Tolerance is moderate and closer to 1 than 0; and the VIF below 2. This suggests that none of the independent variables has colinearity problem. Thus, the OLS regression from the model is expected to produce robust results on each of the independent variables. The result of the Durbin Watson was tested for autocorrelation in the model. The result is 1.908 which is close to 2. This indicates absence of autocorrelation in the model.

Having found no multicolineatity and absence of autocorrelation, it is then suitable to use OLS regression technique on the model.

Table 5: OLS Regression Results of the Interest rate deregulation model

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.010	3.397		1.180	.249
	PLR	.090	.199	.112	.454	.654
	SR	-.088	.132	-.171	-.668	.510
	MPR	-.186	.184	-.253	-1.011	.322
Coefficient of Determination (R^2) = 0.104 Adjusted Coefficient of Determination (Adj R^2) = -0.008 F-Statistics = 0.932 F-Prob. = 0.440[b] Durbin-Watson = 1.908						

a. Dependent Variable: SL
b. Predictors: (Constant), MPR, PLR, SR
*indicates significant at 5% level.

Source: Authors computation, with SPSS 20.

The result of a Coefficient of Determination (R^2) = 0.104on Table 5 above show that only 10.4% of changes in standard of living of Nigerian can be explained by interest rate

deregulation model. More so, the F-statistics is not statistically significant at 5%, indicating that interest rate deregulation variables (PLR, SR and MPR) have no significant effect on economic empowerment of Nigerians.

The coefficients of the regression show that PLR has positive relationship with SL while SR and MPR have negative relationships. The Standardized Coefficients (beta) indicate that MPR has the highest contribution to interest rate deregulation model. The T-statistics indicate that none of the independent variables have statistically significant effect on SL. Summarily, the study found that only 10.4% of economic empowerment is explained by interest rate deregulation, thus, the policy has not engendered economic empowerment in Nigeria. Prime lending rate has positive but insignificant effect on economic empowerment. More so, savings rate and monetary policy rate have negative and insignificant effect on economic empowerment in Nigeria.

CONCLUSION AND RECOMMENDATIONS

The study has investigated the effect of interest rate deregulation on Economic Empowerment in Nigeria. The result of the OLS regression indicated that interest rate deregulation policy has not facilitated economic empowerment in Nigeria. Possible reason being that other interest rates are still tied to Monetary Policy Rate which is anchored by government agency in Nigeria (Obute, Adyorough, &Itodo, 2012). However, the coefficient of monetary policy rate and savings rate are negative and not significant. The implication is that a higher monetary policy rate and saving rate could reduce the standard of living and thus economic empowerment of Nigerians.

As the result further shows that monetary policy rate has the highest and major contribution to the model, it suggests that monetary policy rate is the anchor of the interest rate deregulation in Nigeria. The finding is consistent with the assertion that discount rate shall continue to serve as the anchor for determining other rates in Nigeria (Sanusi, 2004). This implies that the manipulation of the monetary policy rate influences the economy and has so far adversely affected economic empowerment of Nigerians. This might have resulted from the negate relationship savings rate has with standard of living (per capita income) in this study. That savings rate negatively influences standard of living implies that inadequate Gross Capital Formation was generated over the period under study. This would result in lack of funds for investment and the attendant low economic productivity.

However, prime lending rate has positive but insignificant effect on economic empowerment. This indicates that high lending rate of interest is capable of encouraging credit extension by financial institution and economic growth in view of the link between credit, investment and economic prosperity. Nonetheless, the result has shown that interest rate deregulation only explains 10.4% of changes in standard of living and hence is a poor predictor of economic empowerment in Nigeria.

The study thus recommends that monetary policy of the government vis-à-vis the monetary policy rate should be strategized to enhance savings.

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