

Microfinance Banks and the Economic Growth of Nigeria 2010 – 2023

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DOI: 10.56201/ijefm.v10.no4.2025pg128.142

Abstract

The study was to investigate the impact of microfinance banks on the economic growth of Nigeria. Other specific objectives were to examine the effect of microfinance bank lending rate on the economic growth of Nigeria; to determine the effect of microfinance inflation rate on the economic growth of Nigeria; to evaluate the effect of microfinance exchange rate on the economic growth of Nigeria. The study adopted ex-post-facto research design. In collecting and collating data for the determination of effect between variables under study, secondary data was predominantly used. The methods of analysis used are descriptive statistics and regression analysis. The study shows that microfinance bank lending rate does have positive significant effect on economic growth in Nigeria. Also, microfinance inflation rate does have positive significant effect on economic growth in Nigeria. Microfinance exchange rate has significant positive impact on economic growth in Nigeria. Based on the findings thereof, the study concludes that microfinance banks have significant influence on economic growth of Nigeria. Based on the result the study recommended that microfinance institutions should channel very high proportion of their credits to the productive and real sectors of the economy for valuable impact of their operations on Nigeria's economic growth. More attention be given to the issue of inflation and its dampening effect on the economy. Microfinance banks (MFBs) should be front-liners of ethical and professional conduct by ensuring that soft loans are given to credible and promising entrepreneurs.

Key words: *Economic growth, Exchange rate, Lending rate, Inflation rate, Micro finance*

INTRODUCTION

1.1 Background to the Study

Microfinance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions. Microfinance is mostly used in developing economies where petty traders and Small and Medium Scale enterprises (SMEs) do not have access to financial assistance. From the statement above, we can infer that microfinance recognizes poor and micro entrepreneurs who are excluded or denied access to financial

services on account of their inability to provide tangible assets to be used as security for credit facility they want to enjoy from deposit money banks (DMBs).

According to Central Bank of Nigeria (2015), microfinance banks are established to provide diversified, affordable and dependable financial services to the active poor, mobilise savings for intermediation, create employment opportunities and increase the productivity of the active poor in the country, enhance organised systematic and focused participation of the poor in the socio-economic development and resource allocation process, provide veritable avenues for the administration of the micro credit programmes of government and high net worth individual on the non-recourse case basis. Acha (2012) stated that microfinance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions. Microfinance banks are supposed to be a bail out for rural empowerment poverty reduction and means of getting loans to foster Small and Medium Scale business in both the rural and urban areas as proposed by the Nigerian government in 2005 when the idea of it came to be. The financing gap to be met by deposit money banks (DMBs) in Nigeria facilitated the coming into being of microfinance banks.

Nigerian government is striving to ensure that economy develops positively and Nigerian leaders are doing all they can to see to it that they provide conducive financial environment and licence banks to provide financial services to the teeming population especially those people in the rural areas, this is one of the reasons government license microfinance banks to provide financial services to the low people and businesses who have long been denied access to credit facilities to develop their businesses.

Barr (2015) stated that microfinance might help for four reasons: firstly, financial self-sustainable microfinance programmes can contribute directly and at scale, to poverty alleviation and promote market deepening that in turn advances financial development. Second, microfinance may be useful strategy to consider in countries with bad governance where other development strategies face significant barriers. Third, microfinance can help financial market in developing countries to mature, while playing more limited, but useful roles in poverty alleviation in both financially underdeveloped and financially developed countries. Fourth, microfinance can help to break down opposition to, and build support for domestic financial reforms. A lack of access to financial institutions hinders the ability of entrepreneurs in Nigeria to engage in new business ventures inhibiting economic growth and often the sources and consequences of entrepreneurial activities are neither financially nor environmentally sustained. Microfinance banks serve as a means to empower the poor and provide valuable tool to assist the economic development process (Noruwa and Ezike, 2012). It is against the discussion above that this paper seeks to evaluate the impact of microfinance banks on the economic growth of Nigeria.

The failure of conventional banking in Nigeria to meet the socio-economic complexities (needs) of the rural communities that consequently experience rapid growth and changes as well as government desire to reach rural areas with development gave rise to the emergence of community banks (now microfinance banks) as a way of providing financial answers to the low income earners or people so as to finance and improve their income generating activities, i.e. productive activities. Microfinance banks can be seen as an economic growth method intended to be advantageous to the low income class of a given country like Nigeria, both rural and urban poor.

Microfinance banks in promoting and enhancing economic growth in Nigeria economy is faced with stiff difficulties like repayment problems, inadequate finance (poor financing). In a bid or in an attempt to resolving the above identified problems salvaging microfinance banks in Nigeria, this research work therefore is intended to examine the impact of microfinance banks on the economic growth of Nigeria.

Specific objective include: to examine the effect of microfinance bank lending rate on the economic growth of Nigeria, to determine the effect of microfinance inflation rate on the economic growth of Nigeria, to evaluate the effect of micro finance exchange rate on the economic growth of Nigeria.

REVIEW OF RELATED LITERATURE

2.1 Conceptual Framework

2.1.1 Concept of Microfinance

Microfinance is a form of financial development that has as its primary aim poverty alleviation. Microcredit, lending small sum to poor or near-poor households, achieved prominence in the 1980s, thanks to innovative programs such as the Grameen Bank, launched by Mohammed Yunus, and enthusiastic support from government officials including President Clinton (Barr, 2005). Year 2005 was designated by the United Nations as the International Year of Microcredit.

The Central Bank of Nigeria introduced the microfinance policy regulatory and supervisory framework for Nigerians to empower the vulnerable and poor people by increasing the access to factors of production, primarily capital. To achieve the goals of this phase of its banking reforms agenda, the apex bank seeks to re-brand and re-capitalize Litter to Community Banks, to come under two categories of microfinance banks. They are microfinance banks (MFBs) licensed to operate as a unit within local government and the other licensed to operate in the state or the federal capital territory with a minimum paid up capital base and shareholders' funds of N20million and N1billion respectively. About 60% Community Banks migrated to microfinance banks by January 1st, 2008 and more microfinance banks have been licensed to operate (CBN, 2008).

The establishment of microfinance banks is to serve the following purposes according to Central Bank of Nigeria (2005), provide diversified, affordable and dependable financial services to the active poor, mobilize savings for intermediation, create employment opportunities and increase the productivity of the active poor in the country, enhance organized, systematic and focused participation of the poor in the socio-economic development and resource allocation process, provide veritable avenues for the administration of the microcredit programmes of government and high net worth individuals.

2.1.2 Concept of Economic Growth

Dandana and Nwele (2011) stated that economic growth is the increase in the inflation-adjusted market value of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in the real gross domestic product (GDP). Of more importance is the growth of the ratio of GDP to population (GDP per capital which is also called per capital income). An increase in growth caused by more efficient use of inputs (such as physical capital, population or territory) is referred to as intensive growth. GDP growth caused by increases in the amount of inputs available for use is called extensive growth. Real gross domestic product in this study will serve as the relevant economic growth indicator. Unemployment and high poverty affect national productivity and living standard in Nigerian economy and in variably, economic growth and development (Dandana and Nwele2011).

Microfinance banks serve as a means to empower the poor and provide valuable tool to the economic growth process. Access to finance is key to SMEs growth globally. In Nigeria, financial inclusion has been recognized as an essential tool for SMEs development. Lack of access to financial institutions services hinder the ability of entrepreneurs in Nigeria to engage in new business venture thereby inhibiting economic growth (Ashamu, 2014). He stated further that the promotion of micro enterprises in developing countries is justified because of their abilities to foster economic development. Robust economic growth cannot be achieved without

putting in place a well focussed policy to reduce poverty through empowering the people by increasing their access to factors of production, especially credit (Ezike and Abu, 2012).

2.1.3 Lending Rate

The lending or interest rate is considered an important factor affecting saving and investment. It is generally accepted that the interest rate has a major impact on a country's saving and investment. The interest rate is defined as the cost of borrowing or gain on lending. Typically, a rise in the interest rate encourages people to save more as the former leads to increased income. However, an increase in the interest rate also raises the cost of capital, resulting in a reduction in investment within the economy. This is the rate at which the Central Bank of Nigeria lends to financial institution thus supply and demand for funds (Akdiya and Ajiyi 2019).

2.1.4 Inflation Rate

An economy is said to be experiencing inflation when the average price of products and services in that economy is climbing at an ever-increasing rate over time. As a result of the general increase in prices of goods and services, one unit of currency may now purchase a lower total quantity of those products and services. As a result, one may draw the conclusion that inflation is a reflection of a decline in the buying power of each unit of the nation's currency, as well as a decline in the value of products and services in the medium of exchange and the unit of account within the economy (Fischer, 1993). They believed that these three factors contributed to the country's low level of funds that were mobilized. They claim that consumers do not find it appealing to put money away for the future, and they also assert that restricted mobilization is a result of the style of life chosen by certain individuals. The portion of an individual's income that is not spent on immediate needs constitutes their savings. In the process of capital mobilization, saving results in an increase in industrial output (Omotosho & Doguwa, 2013).

According to Abayomi, (2019) inflation is defined as a period of persistence increase in prices of both goods and services over a period of time. In order to determine this increase in prices, a mechanism for measurement and analysis of such movement is very necessary. However, in most of the developing economies in which Nigeria is one them, because of poor database, analytical problem and inadequate storage system, the price level vis-à-vis the inflation figures published are not reliable in most cases. The rate of inflation is stated as percentage increase in prices of any given data as compared to the same data of previous year. Aksi, (2019), suggested three main types of price indices which are often used to measure inflationary effects in an economy. These include; Consumer Price Index (CPI), Whole Price Index (WPI) and Implicit Price Index (IPI) equally known as the GDP deflector. There is always the problem as to which method provides the best statistical approach towards the measurement of inflation. Conceptually, the Implicit Price Index (the GDP Deflector) provides the best measure of inflation because it is the only index that measures the overall price movement of goods and services in the country (Abayomi, 2019). In other words, the index measures price behaviour of the gross domestic products which is the performance indicator of economic growth. To be specific, out of the three indices, the GDP deflector is most reliable since it covers prices at different stages of production; from raw materials to finished goods stage. suggested that the most commonly way to measure the overall price level is the Consumer Price Index (CPI). From the standpoint of consumer welfare, the index is the most useful because it provides some indications as to the extent to which consumers are being affected by price changes thereby communicating the impact of the price changes (inflation) in the real income to consumers (Abayomi, 2019).

2.1.5 Exchange Rate

Exchange rate refers to the value of one currency (the domestic currency) in relation to another (foreign currency). It is the price at which one unit of a country's domestic currency exchanges for any other country's currency. Exchange rate refers to the value of one currency (the domestic currency) in relation to another (foreign currency). It can also be define as the price at which one unit of a country's domestic currency exchanges for any other country's currency. Osiegbu and Onuorah (2012) posit that exchange rate plays a key role in international economic transactions because no nation can remain in isolation due to varying factor endowment. Movements in the exchange rate have ripple effects on other economic variables such as interest rate, inflation rate, import, export, output, etc. These facts underscore the importance of exchange rate to the economic well-being of every country that opens its doors to international trade in goods and services. The importance of exchange rate derives from the fact that it connects the price systems of two different countries making it possible for international trade to make direct comparison of traded goods. In other words, it links domestic prices with international prices. Through its effects on the volume of imports and exports, exchange rate exerts a powerful influence on a country's balance of payments position.

Exchange rate has been defined as the price of one currency in terms of another (Mordi, 2006). Exchange rate is the price at which one country exchanges its currency for other currencies. The increase or decrease of real exchange rate indicates strength and weakness of currency in relation to foreign currency and it is a standard for illustrating the competitiveness of domestic industries in the world market (Razazadehkarsalari, Haghiri & Behrooznia, 2011).

2.2 Theoretical Framework

2.2.1 Financial Growth Theory

Berger and Udell (1998) proposed a financial growth theory for small businesses where the financial needs and financing options change as the business grows, becomes more experienced and less informational opaque. They further suggest that firms lie on a size/age/information continuum where the smaller/young/more opaque firms lie near the left end of the continuum indicating that they must rely on initial insider finance, trade credit and/or angel finance. The growth cycle model predicts that as firm grows, it will gain access to venture capital (VC) as a source of intermediate equity and mid-term loans as a source of intermediate debt. At the final stage of the growth paradigm, as the firm becomes older, more experienced and more informational transparent, it will likely gain access to public equity (PE) or longterm debt. Problems related to financing are dominant in the literature with regard to small firms. The capital structure of smalls firm differs significantly from larger firms because small firms rely more on informal financial market which limits the type of financing they can receive. The small firm's initial use of internal financing creates a unique situation in which capital structure decisions are made based on limited financing options. It is widely accepted that small firms have different optimal capital structures and are financed by various sources at different stages of their organizational lives (Berger and Udell, 1998).

2.3 Empirical Review

Ele & Orji (2023) who study investigated the impact of financial inclusion on economic growth in Nigeria for the period 1991-2021 with the use of time series data sources from the CBN statistical Bulletin. The study adopted the ex post facto research design and employed the autoregressive distributed lag (ARDL) method to analyze the results. The empirical result indicates that banks' rural savings mobilization financial inclusion has significant positive impact on the real gross domestic product in Nigeria, bank loans to rural economy has significant positive impact on the real gross domestic product (economic growth) in Nigeria,

and bank lending rate to farmers has negative but insignificant impact on the gross domestic product in Nigeria.

Hyeladzira (2021) examined the performance of microfinance institutions (MFIs) and its impact in promoting economic development in Nigeria using error correction model. The OLS was used for long-run analysis following findings from the cointegration result that established the existence of a long run equation. The study found a positive relationship between human development index and microfinance loan. The findings suggest that microfinance institutions promote economic growth and social capital formation in Nigeria.

Orok and Patrick (2020) adopted a descriptive analysis and graphical approach in expressing the readily available data between 1992 and 2017 on how the microfinance institutions affected the following economic indexes used in the study: agriculture and forestry, mining and quarrying, manufacturing and food processing, real estate and construction, transport/commerce and other subsectors of the economy. The result indicated that the loans from microfinance institutions had a positive impact on the selected macroeconomic sector and enhanced sectoral productivity of the country, and had a positive effect on the gross domestic product of Nigeria. Though, with a significant improvement in the operational modalities of the microfinance institutions, there will be an improved output, which will have a multiplier effect on the agriculture and forestry, mining and quarrying, manufacturing and food processing, real estate and construction, transport/commerce and other subsectors of economy as highlighted in the study.

Apere (2016) investigated the impact of microfinance banks on economic growth in Nigeria over the period of 1992-2013. This study made use of quantitative secondary data from the Central Bank of Nigeria (CBN) statistical bulletin (2013) to carry out this study. The empirical perspective of this study employed the Augmented Dickey-Fuller Unit Root Test, cointegration test, error correction model (ECM) and the parsimonious test. Empirical evidence from the study has shown that the activities of microfinance bank has the capacity to influence the entire economy if it is well coordinated. The results of the study indicate that microfinance bank loans and domestic investment significantly and positively affect the growth of Nigeria's economy based on the magnitude and the level of significance of the coefficient and p-value and, there is a long-run relationship between microfinance bank loans, investment and economic growth in Nigeria. The implication of this finding is that if loans extended by the microfinance banks to the business sector do not increase it will not generate a corresponding increase in the growth of Nigerian economy.

Afolabi and Emmanuel (2012) in a paper explored the extent to which microfinance lending impacts on indigenous SMEs access to finance and how the intermediation services of the microfinance banks (MFBs) contributed to or otherwise to the development of SMEs. A total of 800 such indigenous SMEs were identified. Data were obtained from 300 of the identified indigenous SMEs from a questionnaire survey of four (4) states within the country in the Niger Delta region. The result showed positive contribution of microfinance lending to the development of such enterprises. However, it appears that a number of factors including cumbersome process, poorly packaged business plans and perceived high cost of credit limit the access of indigenous SMEs to credit.

Olowe, Moradeyo and Babalola (2013), in their study that investigated the impact of microfinance on SMEs growth in Nigeria. The population of the study consists entire SMEs in Oyo State, though restricted to Ibadan metropolis. Purposive sampling technique was used to select a total of 50 SMEs operators. Person correlation coefficient and multiple regression analysis were used to analyze the data. The results from the study showed that financial services obtained from MFIs have positive significant impact on SMEs growth and economic development of Nigeria.

Ashamu (2014) examines the performance of microfinance institutions (MFIs) in Lagos State. Simple random sampling technique was employed in selecting 110 SMEs that constituted the sample size of the research. Structured questionnaire was designed to facilitate the collection of relevant data used for the analysis with the use of descriptive statistics. Findings from the study showed that operations of MFIs have grown greatly, driven largely by expanding informal sector activities. Study further revealed that the sub-sector faces a number of challenges which have been addressed by the research.

METHODOLOGY

3.1 Research Design

Given the nature and scope of the study, the ex-post facto research design was employed. This design is adopted because data for both dependent and independent variables already exist and are not subject to bias.

3.2 Sources of Data

For the purpose of this study, the time series data for the variables under investigation were sourced from Central Bank of Nigeria (CBN) Statistical Bulletin and the Nigerian Deposit Insurance Corporation (NDIC) quarterly report. The annual time series data for the study covered the period 2010 to 2022.

3.3 Method of Data Collection

In collecting and collating data for the determination of effect between variables under study, secondary data was predominantly used. These data are sourced from World bank database and CBN Statistical Bulletin of various editions. This is because the analysis of the subject matter requires detailed and cumulative information for some years which could be provided by known experts and professional institutions and authorities in the field. The data ranges from 2010 to 2022.

3.6 Method of Data Analysis

The methods of analysis used are descriptive statistics and regression analysis. The descriptive statistics would be used to summarize the various data of the study while linear regression analysis is employed to build the model of the study and analyze the data. To estimate effect of influence of microfinance banks on the economic growth of Nigeria, the following statistical criteria would be observed: (i) Student 't' test; (ii) Coefficient of determination (R^2); (iii) Adjusted (R^2), It explains goodness of fit and gives allowance for degree of freedom. It determines the one to one relation between the adjusted (R^2) and the residual variance. (iv) F-test; It is an improvement over the (t) ratio. It is a test of overall significance of the independent variables taken together and the dependent variable. (v) Durbin Watson Statistics (DW); The (DW) is interpreted to mean that any regression with significance of auto correlation means that the successive data in the series are dependent on one another and that some of the variables used in explaining the dependent variable are too related to the dependent variable.

3.7 Validity and reliability of data

Given that the data employed were secondary in nature and sourced from reputable institutions like the Central Bank of Nigeria and Nigerian Deposit Insurance Corporation gives credence to the validity and reliability of the dataset. Furthermore, diagnostics test were also conducted on the data collected to ensure it does not lead to spurious result and conclusion.

3.7 Model Specification

The following mathematical model would be use to analyze the effect of electronic banking processes and its implication for economic sector development in Nigeria. The variables in this study would be bank leading, inflation rate, exchange rate and regressed against the dependent variable; Real Gross Domestic Product (RGDP). This study employed the following model specified as shown below.

This study employed the following model specified as shown below.

$$Y = \beta_0 + \beta_1 LR_1 + \varepsilon \dots\dots\dots 3.1$$

Where Y represents economy growth in Nigeria measured by RGDP

LENRATE = Lending rate

β_0 = Constant

β_1 , = the coefficient of the function

ε = error term.

$$Y = \beta_0 + \beta_2 INFR_2 + \varepsilon \dots\dots\dots 3.2$$

Where Y represents economic sector development in Nigeria measured by RGDP

INFRATE = Inflation rate

β_0 = Constant

β_1 , = the coefficient of the function

ε = error term.

$$Y = \beta_0 + \beta_3 EXCHR_3 + \varepsilon \dots\dots\dots 3.3$$

Where Y represents economic sector development in Nigeria measured by RGDP

EXCHR = Exchange Rate

β_0 = Constant

β_1 , = the coefficient of the function

ε = error term.

3.8 Variables Description of Model

This study made use of two sets of variables which are dependent and independent variables. This study adopted economic as its dependent variables. The chosen independent variables are lending rate, inflation rate, and exchange rate. All these variables are endogenously determined.

Inflation rate (Infr) refers to the rate of persistent increase in prices of both goods and services over a period of time.

Exchange Rate (ExchR): refer to the monetary value of one currency (the domestic currency) in relation to another (foreign currency).

Monetary Policy Rate: This account for the three market rates crime lending rates, the interbank rate and the Treasuring bill rate) which are in the lending outlet of DMBs direction with change in the MPR (Ndekwa, 2013).

Exchange Rate (EXR): An exchange rate this has two components, the domestic currency and can be quoted either direct quotation, the price of a unit of foreign currency is expressed in terms of the domestic currency.

3.9 Decision Rule with Regards to the Testing of the Hypotheses

To accept or reject the null hypotheses, there was comparison between the computer generated significance level which was either greater than or equal to the assumed stated P-value of 0.05 and 0.01 level of significance. The decision rule following the comparison was thus made as follows: Accept H_0 if $P\text{-value} (0.00) \geq \text{Sig. (2 tailed)}$, which implied no significance, Reject H_0 if $P\text{-value} (0.00) \leq \text{Sig. (2 tailed)}$, which implied there was significance Correlation.

4.0 ANALYSIS AND INTERPRETATION OF RESULT

4.1 Descriptive test

The descriptive test summarizes the descriptive statistics of the model variable testing the appropriateness and normality of the variables as modeled. Summary result of the descriptive test is presented below 1:

Table 1: Descriptive Result

	EXCHANGE_ RATE	INFLATION_ RATE	LEADING_ RATE	RGDP
Mean	11.94615	13.61538	13.20000	7.661538
Median	11.80000	14.00000	13.10000	7.300000
Maximum	15.50000	18.90000	24.10000	11.10000
Minimum	8.500000	5.400000	4.500000	4.200000
Std. Dev.	2.067855	3.725553	4.410593	2.375408
Skewness	0.020050	-0.761053	0.637256	0.054103
Kurtosis	2.083273	3.122879	4.797202	1.623535
Jarque-Bera Probability	0.456081 0.796092	1.263116 0.531763	2.629422 0.268552	1.032614 0.596720
Sum	155.3000	177.0000	171.6000	99.60000
Sum Sq. Dev.	51.31231	166.5569	233.4400	67.71077
Observations	13	13	13	13

Source: Researcher's Computation 2023 (E-views)

The study employed the descriptive test examine the normality characteristics of the model variables. Table 1 showed the selected descriptive statistical analysis characteristics of the variables. In percentage average, the economic growth been the dependent variable stood at 7.66%. This indicates that for the 13years period studied, the economic growth averaged single digit. The average percentage of exchange rate in the period under reviewed stood at 11.94%. The size of the average inflation rate and the lending rate averaged 13.61% and 13.20% respectively over the period.

To check the spread or changes in a series of data, the standard deviation test produced the result as seen. The deviation in the series was 2.08, 3.12, 2.79 and 1.62 for the variables (exchange rate, inflation rate, lending rate and real gross domestic product). A higher standard deviation value indicates greater spread in the data. From the result above, inflation rate has the a higher standard deviation.

Skewness defines the extent to which a distribution differs from a normal distribution, the closer the values are to zero, the more normal the data sample is said to be. When data are skewed, the majority of the data are located on the high or low side of the graph. The descriptive result above shows that all the data have a normal distribution.

Testing of Hypothesis

H₀₁: There is no significant effect of microfinance bank lending rate on the economic growth of Nigeria.

Dependent Variable: RGDP
Method: Least Squares
Date: 11/21/23 Time: 01:28
Sample: 2010 2022
Included observations: 13

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.933333	0.253195	3.686222	0.0013
LENDING RATE	0.533333	0.173690	3.070598	0.0056
R-squared	0.300000	Mean dependent var	1.666667	
Adjusted R-squared	0.268182	S.D. dependent var	0.481543	
S.E. of regression	0.411943	Akaike info criterion	1.143791	
Sum squared resid	3.733333	Schwarz criterion	1.241963	
Log likelihood	-11.72550	Hannan-Quinn criter.	1.169836	
F-statistic	9.428571	Durbin-Watson stat	0.689286	
Prob(F-statistic)	0.005596			

Source: Researcher's Computation 2023 (E-views)

The empirical value of the adjusted coefficient of determination ($R^2 = 0.300$) shows that 30.0% of the total variations in Nigeria's real gross domestic product is accounted for by variation in the lending rate, while the remaining 70.0% is attributed to the output of other economic sectors not captured in the model.

The analysis of variance (ANOVA) confirmed the existence of a positive significant influence and the study found that the regression model is best fit for predicting the relationship between variables under study [$F = 9.428571$ and $p < 0.05$]. Given this result, the null hypothesis is rejected. Therefore, there is positive and significant influence of lending rate on the Nigeria's real gross domestic product.

Given that the Durbin Watson value (0.689286) greater than the Adjusted R-square (0.268182), it shows that there is no degree of autocorrelation as the model has a great predictive power.

Hypothesis Two

H₀₂: There is no significant effect of microfinance inflation rate on the economic growth of Nigeria.

Dependent Variable: RGDP
Method: Least Squares
Date: 11/21/23 Time: 01:26
Sample: 2010 2022
Included observations: 13

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.757143	0.337457	5.207005	0.0000
INFLATION	-0.057143	0.203495	-0.280808	0.01815
R-squared	0.503571	Mean dependent var	1.666667	
Adjusted R-squared	0.255721	S.D. dependent var	0.481543	

S.E. of regression	0.491486	Akaike info criterion	1.496889
Sum squared resid	5.314286	Schwarz criterion	1.595060
Log likelihood	-15.96266	Hannan-Quinn criter.	1.522933
F-statistic	8.078853	Durbin-Watson stat	0.611828
Prob(F-statistic)	0.0181482		

Source: Researcher's Computation 2023 (E-views)

The empirical value of the adjusted coefficient of determination ($R^2 = 0.503$) shows that 50.3% of the total variations in Nigeria's real gross domestic product is accounted for by variation in the inflation rate, while the remaining 30.7% is attributed to the output of other economic sectors not captured in the model. Also, holding other factors constant, the correlation (R) signifies a negative sign, implying that inflation rate influence Nigeria's real gross domestic product negatively.

The analysis of variance (ANOVA) confirmed the existence of a positive significant influence and the study found that the regression model is best fit for predicting the relationship between variables under study [$F = 8.078853$ and $p < 0.05$]. Given this result, the null hypothesis is rejected. Therefore, there is positive and significant influence of inflation rate on the Nigeria's real gross domestic product.

Given that the Durbin Watson value (0.611828) greater than the Adjusted R-square (0.255721), it shows that there is no degree of autocorrelation as the model has a great predictive power.

Testing of Hypothesis Three

H₀₃: There is no significant effect of microfinance exchange rate on the economic growth of Nigeria.

Dependent Variable: RGDP
Method: Least Squares
Date: 11/21/23 Time: 01:24
Sample: 2010 2022
Included observations: 13

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.361257	0.264545	5.145650	0.0000
EXCHANGE_RAT				
E	0.209424	0.168725	1.241216	0.0276
R-squared	0.565445	Mean dependent var	1.666667	
Adjusted R-squared	0.222965	S.D. dependent var	0.481543	
S.E. of regression	0.475982	Akaike info criterion	1.432782	
Sum squared resid	4.984293	Schwarz criterion	1.530953	
Log likelihood	-15.19338	Hannan-Quinn criter.	1.458826	
F-statistic	7.540616	Durbin-Watson stat	2.866751	
Prob(F-statistic)	0.027598			

Source: Researcher's Computation 2023 (E-views)

The empirical value of the adjusted coefficient of determination ($R^2 = 0.565$) shows that 56.3%

of the total variations in Nigeria's real gross domestic product is accounted for by variation in the exchange rate, while the remaining 46.7% is attributed to the output of other economic sectors not captured in the model.

The analysis of variance (ANOVA) confirmed the existence of a positive significant influence and the study found that the regression model is best fit for predicting the relationship between variables under study [$F = 7.540616$ and $p < 0.05$]. Given this result, the null hypothesis is rejected. Therefore, there is positive and significant influence of exchange rate on the Nigeria's real gross domestic product.

Given that the Durbin Watson value (2.866751) greater than the Adjusted R-square (0.222965), it shows that there is no degree of autocorrelation as the model has a great predictive power.

Discussion of Findings

The first hypothesis states that there is no significant effect of microfinance bank lending rate on the economic growth of Nigeria. The result shows that Therefore, there is positive and significant influence of microfinance bank lending rate on the Nigeria's real gross domestic product. The empirical value of the adjusted coefficient of determination ($R^2 = 0.300$) shows that 30.0% of the total variations in Nigeria's real gross domestic product is accounted for by variation in the lending rate, while the remaining 70.0% is attributed to the output of other economic sectors not captured in the model. The analysis of variance (ANOVA) confirmed the existence of a positive significant influence and the study found that the regression model is best fit for predicting the relationship between variables under study. This is in agreement with the study and findings of (Akdia and Ajayi 2019).

The second hypothesis states that there is no significant effect of microfinance bank inflation rate on the economic growth of Nigeria. The result shows that Therefore, there is negative and significant influence of microfinance bank inflation rate on the Nigeria's real gross domestic product. The empirical value of the adjusted coefficient of determination ($R^2 = 0.503$) shows that 50.3% of the total variations in Nigeria's real gross domestic product is accounted for by variation in the inflation rate. The analysis of variance (ANOVA) confirmed the existence of a positive significant influence and the study found that the regression model is best fit for predicting the relationship between variables under study. This is in agreement with the study and findings of Omotosho & Doguwa, (2013) who examined the effect of inflation on economic growth in Nigeria.

The third hypothesis states that there is no significant effect of microfinance bank exchange rate on the economic growth of Nigeria. The result shows that Therefore, there is negative and significant influence of microfinance bank exchangerate on the Nigeria's real gross domestic product. The empirical value of the adjusted coefficient of determination ($R^2 = 0.563$) shows that 56.3% of the total variations in Nigeria's real gross domestic product is accounted for by variation in the exchangerate. The analysis of variance (ANOVA) confirmed the existence of a positive significant influence and the study found that the regression model is best fit for predicting the relationship between variables under study. This is in agreement with the study and findings of Akaia, (2019) who examined the effect of exchange rate on economic growth in South Africa

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

This research work investigated the impact of microfinance banks on the economic growth of Nigeria. Related conceptual, theoretical and empirical literatures were reviewed. The study adopted ex-post-facto research design. In collecting and collating data for the

determination of effect between variables under study, secondary data was predominantly used. The methods of analysis used are descriptive statistics and regression analysis.

The summary of the major findings of the study are:

1. microfinance bank lending rate does have positive significant effect on economic growth in Nigeria.
2. microfinance inflation rate does have positive significant effect on economic growth in Nigeria.
3. micro finance exchange rate has significant positive impact on economic growth in Nigeria.

5.2 Conclusion

The broad objective of this was to empirically examine the subject of impact of microfinance banks on the economic growth of Nigeria. The study found mixed significant results on the treatment variables. Based on the findings thereof, the study concludes that microfinance banks have significant influence on economic growth of Nigeria.

5.3 Recommendations

Based on the outcome the following recommendations are made:

1. Microfinance institutions should channel very high proportion of their credits to the productive and real sectors of the economy for valuable impact of their operations on Nigeria's economic growth.
2. More attention be given to the issue of inflation and its dampening effect on the economy.
3. Microfinance banks (MFBs) should be front-liners of ethical and professional conduct by ensuring that soft loans are given to credible and promising entrepreneurs.

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