# MICRO CREDIT OPERATIONS AND ECONOMIC GROWTH IN NIGERIA

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## ABSTRACT

**KEYWORDS:**

*Credit delivery, skills acquisition, poverty alleviation, SME growth and Microfinance banks*

*This study empirically studied the extent to which micro credit operations can relate with economic growth in Nigeria. The study considered credit delivery and improvement of skills acquisition as predictor variable while poverty alleviation and SME growth were considered measures for our criterion variable. 10 microfinance banks based in Port Harcourt were chosen for the study and from a sample size of 179, 132 copies were useful for data analyses which constitute 74% of copies distributed. The test of hypotheses showed significant relationship existing between our dimensions and measures. The study further recommended government and investors' conscious approach towards microcredit related activities to help meet future challenges of economic and social development.*
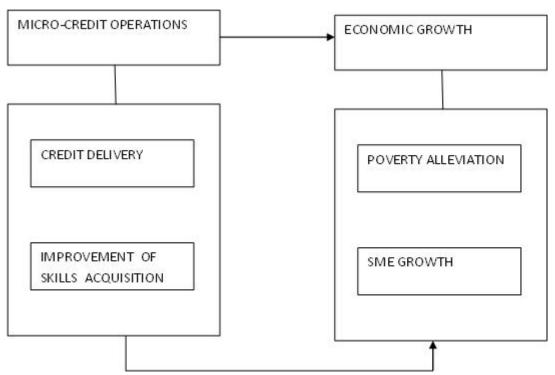
## INTRODUCTION

Economic growth is often accompanied by increased attention on small and medium enterprises all over the world (Wang, 2013). In China for instance, SMEs accounted for over 60% of GDP as at March 2012 and this was significant considering its 1% contribution in the 1980s. In 2012, SMEs contributed 46.54% to Nigeria's GDP and it was very evident that SMEs were vital to Nigeria's development (Elebeke, 2012). This study measures economic growth in Nigeria by the level of poverty alleviation as well as SME growth. This is because these objectives are found within micro credit operation in any country. When the people have lived above poverty mentality, it is certain that SMEs have taken its rightful place in economic and social development. According to Agbaeze and Onwuka (2014), deposit money banks in Nigeria only provide services to only about 35% of persons who are economically active while 65% of these people who are excluded only find hope in micro-financing organizations.

## STATEMENT OF THE PROBLEM

When we look back to the history of Nigeria before independence, citizens had always engaged in one form of economic activities or the other. Nigerians were very active in agriculture, basket weaving, pottery, local brewing, etc. today, so many Nigerians do not want to venture into such areas because of the absence of financial services which could support their economic activities as well as the over concentration of the minds of Nigeria towards crude oil (Nwanyanwu, 2011). Nigerians are hard working people who would always want to find something doing at every point in time instead of being idle. Over the years, Nigerian government has instituted various programs to support micro credit operations through Nigerian Industrial Development Bank in 1962, Industries credit scheme in 1971, Nigerian bank for commerce and Industry in 1973 as well as bank of Industry in 2001. However, from the year 2002, several other schemes were introduced by government through the Central bank such as the 200 billion Naira restructuring /refinancing scheme, 200 billion Naira Agricultural credit scheme in 2009, intensive-based risk sharing system for agricultural lending in 2011, etc (CBN, 2014). With such funds mentioned, one would still wonder why Nigeria's Misery index still rose to 53.42% at the 4th quarter 2016 against 35.46% in the first quarter of 2010. This is also reflected in the level of hardship been faced by citizens in the country and this is considered a significant problem.

## CONCEPTUAL FRAMEWORK



Adopted from Ayodele & kayode (2012)

### RESEARCH HYPOTHESES

$H0_1$ there is no significant relationship between credit delivery and poverty alleviation

$H0_2$ There is no significant relationship between credit delivery and SME growth

$H0_3$ There is no significant relationship between improvement of skills acquisition and poverty alleviation

$H0_4$ There is no significant relationship between improvement of skills acquisition and SME growth
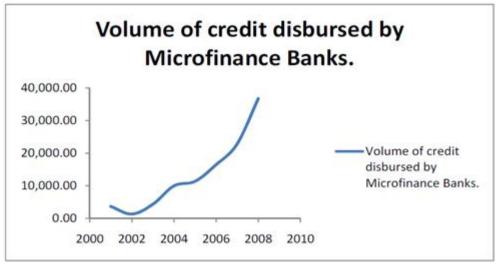
### THEORETICAL FRAMEWORK

The theoretical foundation for this work would be rooted in ERG theory proposed by Alderfer (1969). ERG theory is simply a representation of Existence, Relatedness and Growth needs. This theory was developed from Maslow's theory of human needs which includes Physiological needs, safety needs, social needs, esteem needs and self-actualization needs. According to Alderfer (1969), existence needs deals with Maslow's physiological and safety needs. Relatedness refers to Maslow's social needs while Growth needs refer to Maslow's self-esteem and self-actualization needs (Yang, Hwang & Chen, 2011). ERG theory is very useful for this work because it guides the activities of micro credit operations in ensuring that people are motivated according to their level of need. The needs of large businesses in the country may not be the same need for Small and Medium Enterprises (SMEs) in the country. Therefore, the right motivation and assistance must be given to the right businesses and individuals at the right time. This would go a long way in effecting economic growth.

### MICRO-CREDIT OPERATIONS

Micro credit operations can be referred to the activities necessary for the provision of credit services to clients with low income and this is usually done by issuing small loans for small and medium enterprises (Cornford, 2002). Ayode & Kayode (2014) further added that some of these operations could be small scale enterprise financing, deposit liabilities, loans and advances, etc. the impact of micro finance institutions can never be over-emphasized as it has been the last resort for low income earners in Nigeria. According to Ehigiamusoe (2005), these institutions have made it possible for the poor masses to gain access to financial services, it has also made poor households to effect the principles of planning for the future rather than depending on everyday-for –survival. Because microfinance institutions are the major establishments which carry out micro credit operations, it is very necessary to consider it as a strategic tool for achieving sustainable development goals. In this study, we shall consider credit delivery and improvement of skills acquisition to be the dimensions of micro credit operation. According to a recent study by vanguard, the total credit provided by micro finance institutions stood at N214.32 billion in December 2016 and this is against over N800 million in 2008. On the area of improved skill acquisition, a lot of micro credit institutions have assisted women and youths in acquiring skills which could be used to generate income and make a living. Such skills include shoe making, textile manufacturing, blacksmithing, tailoring, photography, etc (Ayodele & Kayode, 2012).

**Fig. 1.Graphical Presentation of the Volume of Credit Granted by Microfinance Banks (N = Millions)**



*Source: Source: CBN Statistical Bulletin (2008); **Nwanyanwu (2011)***

## ECONOMIC GROWTH

According to Wikipedia (2017), growth can be defined as a positive change in size or maturation over a period of time. According to OECD (2008), the signs of economic growth are evident in reduced poverty rate, improvement in the various sectors of the economy such as agricultural, financial, commerce, health, as well as manpower development. These growth does not just come without effort, there must be a conscious effort made by both the government and the people. According to IMF, Nigeria had an economic growth of 0.8%(below 1%) in the early quarter of 2017 (Ujah & Kolawole 2017). This implies that the factors hindering growth is still on the increase and conscious effort must be inserted by the government to enable Nigeria meet up with vision 2020. In another study by Vanguard in October 2016,

it was estimated that out of over 167 million Nigerians, not less than 112 million (67%) Nigerians live below poverty level. Majority of these 112 million are those within rural communities (Ahiuma-Yong, 2016). This is quite lower than the percentage revealed by the United Nations. According to UNICEF (2006), one in every five Africans is a Nigerian. Nigeria was also ranked 159 out of 177 countries where 70.8% of its population lives on less than one dollar per day. Some of the indices used by the United Nations are health and nutrition, basic education, water, sanitation and hygiene, protection and participation as well as planning and communication. Despite the fact that Nigeria is gradually making significant headway in these areas, there is need for more to be done in ensuring the common man re-establishes his hope in the country he finds himself.

## DATA ANALYSES AND FINDINGS
### Table 1. Population table and distribution of research instrument

| S/N | Name of MFB | Staff strength | % distribution | No. of copies for each MFB |
|-----|-------------|----------------|----------------|----------------------------|
| 1 | Cosmopolitan MFB | 35 | 10.8% | 19 |
| 2 | Rima Growth Pathway MFB | 26 | 8.0% | 14 |
| 3 | Maxitrust MFB | 30 | 9.3 | 17 |
| 4 | Diobu MFB | 29 | 9.0% | 16 |
| 5 | Miland MFB | 33 | 10.2% | 18 |
| 6 | Premium MFB | 40 | 12.0% | 22 |
| 7 | Surelife MFB | 38 | 12.0% | 22 |
| 8 | Levite MFB | 27 | 8.3% | 15 |
| 9 | Moneywell MFB | 35 | 10.8% | 19 |
| 10 | Nkpolu MFB | 31 | 9.6% | 17 |
| | **TOTAL** | **324** | **100%** | **179** |

MFB= Micro Finance bank

This study adopted a quasi-experimental research design because the researchers intend to study employees within micro finance institutions whose behavior are not entirely under their control. 10 microfinance banks were selected in Rivers state with total staff strength of 324. Using Taro Yamen's formula, we had a sample size of 179. Copies of research instrument were further distributed to each of the Micro finance banks according to their percentage distribution of staff strength. However, 132 copies (74%) were retrieved and useful for further analyses. The table below shows number of copies returned.

**Table 2.Copies of returned and useful research instruments**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Cosmopolitan MFB | 13 | 9.8 | 9.8 | 9.8 |
| | Rima Growth Pathway MFB | 9 | 6.8 | 6.8 | 16.7 |
| | Maxitrust MFB | 11 | 8.3 | 8.3 | 25.0 |
| | Diobu MFB | 9 | 6.8 | 6.8 | 31.8 |
| | Miland MFB | 22 | 16.7 | 16.7 | 48.5 |
| | Premium MFB | 15 | 11.4 | 11.4 | 59.8 |
| | Surelife MFB | 17 | 12.9 | 12.9 | 72.7 |
| | Levite MFB | 14 | 10.6 | 10.6 | 83.3 |
| | Moneywell MFB | 12 | 9.1 | 9.1 | 92.4 |
| | Nkpolu MFB | 10 | 7.6 | 7.6 | 100.0 |
| | Total | 132 | 100.0 | 100.0 | |

This table shows a distribution of returned copies of research instrument from each of the organization.

**Table 3. Correlation matrix**

Correlations

| | | | Credit Delivery | Improvement of Skills Acquisition | Poverty Alleviation | SME Growth |
|---|---|---|---|---|---|---|
| Spearman's rho | Credit Delivery | Correlation Coefficient | 1.000 | .125 | .660** | .474** |
| | | Sig. (2-tailed) | . | .153 | .000 | .000 |
| | | N | 132 | 132 | 132 | 132 |
| | Improvement of Skills Acquisition | Correlation Coefficient | .125 | 1.000 | .265** | .234** |
| | | Sig. (2-tailed) | .153 | . | .002 | .007 |
| | | N | 132 | 132 | 132 | 132 |
| | Poverty Alleviation | Correlation Coefficient | .660** | .265** | 1.000 | .420** |
| | | Sig. (2-tailed) | .000 | .002 | . | .000 |
| | | N | 132 | 132 | 132 | 132 |
| | SME Growth | Correlation Coefficient | .474** | .234** | .420** | 1.000 |
| | | Sig. (2-tailed) | .000 | .007 | .000 | . |
| | | N | 132 | 132 | 132 | 132 |

**. Correlation is significant at the 0.01 level (2-tailed).

In the correlation matrix above, our first null hypothesis was rejected based a correlation coefficient of 0.660 and a p-value of 0.000 which is less than alpha of 0.05. This means that credit delivery has a strong relationship with poverty alleviation. Our second hypothesis shows another significant relationship between credit delivery and SME growth with a correlation coefficient of 0.474 and a p-value of 0.000. Our third null hypothesis was also rejected based on a correlation coefficient of 0.265 and a p-value of 0.002, showing a significant relationship existing between improvement of skills acquisition and poverty alleviation. Our fourth hypothesis shows another significant relationship existing between improvement of skills acquisition and SME growth with a correlation coefficient of 0.234 and a p-value of 0.007. We also reject the null hypothesis.

## CONCLUSION

No nation can establish itself when its micro-economic services are weak. In every developed nation, there is a similarity in strength of small and medium enterprises because they run the economy. Therefore, Nigeria needs to wake up and take her challenge as the giant of Africa. This study has further shown that micro-credit operations if properly managed can fix the level of misery found in this part of the world. The problem does not lie in the institutions but the operations of these intrusions in meeting its vision and mission.

## RECOMMENDATIONS

i.   Institutions must rise up to help the government
ii.  Non-profit organizations and NGOs must meet the need of the masses because collectively, the future of Nigeria would be great.

iii. Micro-credit programs should be targeted at women and youths because they constitute the highest population in our country.

iv. Centers for theses operations should be located in rural areas where they are mostly needed.

v. Local farmers must be encouraged to grow. The government has really done well on local and large scale agriculture but more needs to be done.

vi. Micro-finance banks must be responsible for achieving rural development goals as deposit money banks may not get down to the least person in rural communities.

vii. Lastly, the there is need for private sector to help the government in fixing the issue of power in Nigeria because most operational expenses of SMEs comes from alternative power generation.

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