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Are Microfinance Banks Important in Deposit Mobilisation in Nigeria?

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Abstract
Microfinance banking as a means of creating economic and social development from below has come a long way in Nigeria. Various comprehensive surveys of the diversified activities of microfinance banks have been provided since 2005 when the policy guidelines became operative. Microfinance banks in Nigeria operate in diverse environments- rural, urban, and cosmopolitan. They also differ in ownership structure as some are privately owned, while some others are owned by institutions. This heterogeneity make its operations open to different empirical investigations, as no single research can exhibit all the desired characteristics.Data were collected from the publications of the Central Bank of Nigeria Statistical Bulletin and World Development Indicator (WDI).The data spanned from the period of 1990 to 2010 and employs the Ordinary Least Square(OLS) method of regression analysis to determine the extent of deposit mobilization capacity of banks. It was discovered that a very small portion of savings go to microfinance banks compared to deposit money banks. The study recommended that Microfinance banks in Nigeria still need to do a lot more in their deposit mobilisation strategies if the objective of microfinance banking is to be realized in the country.
Key words: microfinance banks; deposit money banks; inflation rate; deposit mobilization

1. **Introduction**.

The need to extend banking facilities to the rural areas of Nigeria started with the rural banking scheme in the 1970s, and up to the 1980s. However, by the end of the 1980s, it became clear that the conventional banks were no longer willing to open more rural branches; this was simply because such branches were mostly unviable. Opening them therefore ran contrary to the profit objective of the owners. The banks also have preference for big trading companies that operate large volume and value accounts. In confronting this challenge, Nigeria, like most other countries of the world have adopted the concept of micro financing as a means of mobilizing deposits in the rural areas. This is in addition to offering a broad range of other financial services to low income individuals and their micro enterprises. Such deposits are also to be used mainly in providing credits to rural dwellers. It is believed that by extending credit to rural dwellers, a major Millennium Development Goal (MDG) of reducing poverty by half would have become achievable by the target year of 2015.

The rural areas in Nigeria are predominantly under banked This is perhaps due to the perceived low level of income that arise from the sparse economic activities that take place in these areas. Thus, being mainly profit-oriented, banks find it unattractive establishing in those areas. As a consequence, rural dwellers also find it difficult patronising banks even for the most basic reason of opening mere deposit accounts. Equally, many low-income earners merely save for the short term as a means of smoothing out consumption during periods of low business activity. The diaries also show the many ways in which poor households rely on financial instruments not only for investment and entrepreneurship purposes, but also for consumption smoothing and easing the unpredictability of daily life (Odell, 2010:5). They also guard against the temptation of spending excess income during their individual boom periods in agriculture, and other cottage industries. All these help in reducing swings in consumption. Just like the savers, the poor also borrow mostly to finance consumption needs.

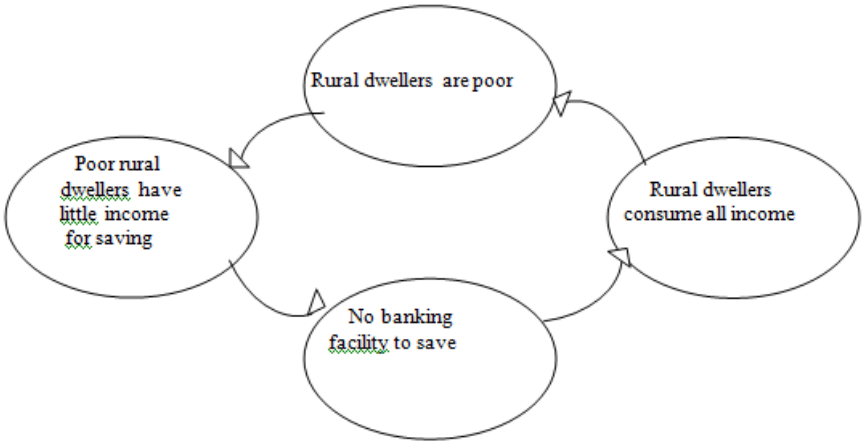
Traditionally, and even up till today, conventional banks have not provided financial services to low-income clients. The lending conditions have been mostly stringent such that customers with little or no security find it difficult and oftentimes impossible to borrow. Even in the area of deposit mobilization, the situation is nearly the same, as banks raise their minimum deposit per client.

The above results from the argument by banks that managing several small accounts is more expensive than the management of one big account. The argument seems plausible because the fixed cost of processing loans of any size is considerable just as cases of loan default become more common with larger number of borrowing accounts. The same line of reasoning applies to savings account as paper works per depositor are nearly the same irrespective of the amount involved. Yet, rural development depends more on small loans for cottage activities than a cartel of borrowers concentrated in few capital-intensive industries and located in major cities around the

country. Also, availability of savings that can be converted to investment is needed by poor countries for development.

Hence, not only are most rural dwellers poor, they are poor because no facility exist for them to save the little they have; they cannot save because banks are non-existent; and because banks are not available nearby, they consume all their income, which also make them poor. This gives a picture of the rural poverty cycle of figure 1.

Figure 1
Generic model of Rural Poverty



Source: Devised by the authors

Owing to the poverty of rural dwellers, microfinance banks will equally find their operations difficult considering the role of savings deposit in lending and as a veritable source of capital. This notion is shared by Reddy (2007) that savings mobilized from local depositors will ultimately be the largest source of capital for microfinance. Indeed, for him, many microfinance institutions have a mandatory savings rate, such that for larger loans, some microfinance institutions often require borrowers to deposit up to five percent of the loan back into a savings account.

The precursor to microfinance banks in Nigeria was the group of licensed community banks. As a strategy for grassroots development, community banks were introduced into the financial system in 1991. Designed to complement operations of the existing banks, problems started arising as more of those banks became licensed. Equally, majority of them ventured into activities that were not related to their areas of core competence. Many of the banks thereafter became unviable and therefore unsafe for rural dwellers. The resulting problem led to a rethinking of the idea by the government.

Thus, following the launching of the Microfinance Policy Regulatory and Supervisory Framework for Nigeria in 2005, more than eight hundred and sixty six microfinance banks have been licensed to operate by the Central Bank of Nigeria (CBN) up to date (Nigeria Deposit Insurance Corporation, 2011). However, this number compares unfavourably with Indonesia whose microfinance sector is one of the largest in the world. As at June 2006, Indonesia is said to have an estimated one thousand, nine hundred and fifty five microfinance institutions, some of which are more than one hundred years old (Ovia,2007).

If microfinance is successful by a measure of any of its aims in Nigeria, including raising incomes, promoting entrepreneurship, advancing loans, engaging in domestic funds transfer, and encouraging savings, then over time, impact assessment especially in the area of effects on savings mobilization can be gauged.

Conducting research over the activities of a few microfinance institutions in Nigeria may not necessarily confirm that microfinance is successful on the basis of deposit mobilization. This is even more important because microfinance institutions around the world serve different types of clients. They also operate in diverse economic environments that are both rural and urban. Given this heterogeneity, a specific study based on only one performance index, such as deposit mobilization, that cut across all microfinance institutions may be of greater relevance.

2. Literature Review and Theoretical Framework

Microfinance institutions around the world serve different types of clients. These institutions offer various services including loans, savings account, insurance products, and various combinations of these services (Odell, 2010). While microcredit refers to the act of providing loans of small amounts to the poor and other borrowers

that have been ignored by commercial banks, microfinance is the act of providing borrowers with financial services such as savings institutions, and insurance policies (Sengupta and Aubuchon, 2008)

More broadly, microfinance is ‘‘a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit, but also savings, insurance, and fund transfers” (Robert et al, 2004)

The institutions that carry out these activities in Nigeria are referred to as microfinance banks. A microfinance bank in Nigeria is construed to mean “ any company licensed to carry on the business of providing microfinance services, such as savings, loans, domestic funds transfer, and other financial services that are needed by the economically active poor, micro, small and medium enterprises to conduct or expand their businesses” (CBN, 2005:3). Microfinance activities can be available in the form of micro credit, micro savings, micro insurance, or other “micro” financial services. The idea of microfinance started in Bangladesh with the establishment of the Grameen Bank.

Conventional banks across the world ordinarily find lending to the poor very difficult and unprofitable. Difficult because they lack the skills or the expertise needed to put the borrowed funds to their best possible use; and unprofitable because most of the loans may go bad and may consequently have to be written off. New thinking now centres on micro financing with rural poor as the focus.

Dupas and Robinson (2009) in an assessment of the effects of micro savings in Kenya finds that access to savings accounts by micro entrepreneurs in microfinance banks had several positive effects on the business fortune of the savers. This fact seems interesting because the saving accounts were not only interest-free, but also featured substantial withdrawal fees.

Also, research in Thailand shows that microfinance institutions, particularly those targeted at women, promoted asset growth, consumption smoothing, mobility across occupations and industries, and also reduced reliance on money lenders (Kaboski and Townsend, 2005)

Ordinarily, people save because they earn income. But such saving can only come up when their consumption requirements have been met. We can therefore start our theoretical underpinning from the Keynesian framework: that consumption(C) and saving(S) each depends on income(y):

$C=f(y)$ (1)

$S=f(y)$ (2)

Individuals have rational expectations about the future; hence, they are not usually inclined to consume all of today’s income. This is because they would prefer to maintain about the same level of consumption at retirement and even to death. The theory of expectations therefore plays an important role in the behaviour of income earners.

One of the various theories of consumption behaviour, the Friedman (1957) permanent income theory of consumption seems most relevant to explain the saving behaviour of people. This theoretical emphasis is that the natural planning horizon of the income earner, in determining how much to save, is the entire life time. In doing this, the consumer computes the present value of his labour income over the entire working life; it is only a fraction of this total which goes to finance his saving.

Using time dimension and incorporating tax, (1) becomes:

$C_t = cy_t^d$

Separating into components yields:

$C_t = c(y_t - T_t)$ (3)

where:

C_t= consumption on period t

y_t= income in period t

T_t= tax in period t

Now, let y_t^l= real labour income in year t

Then, $V_t = (y_t^l - T_t)$ (4)

Equation (4) defines human wealth or after tax labour income in year t. This is such that the total after-tax income for all income earners throughout their lives becomes:

$V_t = \sum_{l=1}^{k} \sum_{t=1}^{m} (y_t^l - T_t)$ (5)

Discounting to their present value gives:

$V_t = \frac{1}{(1+r)^n} \left[\sum_{l=1}^{k} \sum_{t=1}^{m} (y_t^l - T_t) \right]$ (6)

The income earner would now be constrained to spend a fraction of this income in (6) such that what is available for bank deposit in period t becomes:

$D_t = \infty(V_t)$ (7)

This allows income earners to maintain roughly the same level of consumption each year throughout life. Here, ∞ varies depending on the ordered future preference of individuals and his risk- shouldering ability. Thus, if ∞ is devoted to savings, then the residual, 1-∞ goes to finance all consumption activities since $\infty = \frac{dDt}{dVt}$

Here, y_t^l is taken to be a consciously weighted average of present along with past and future incomes. The weights are assumed to decline geometrically backwards in time and to increase geometrically forward in time. However, T_t will be constant under stable fiscal policy.

Using the above scenario, we have the real labour income for the individual earner in year t as:

$$y_t^l = [Y_t + \Omega Y_{t-1} + \Omega^2 Y_{t-2} + \cdots\cdots + \Omega^n Y_{t-n}] + [\Omega^n Y_{t+1} + \Omega^{n-1} Y_{t+2} + \Omega^{n-n+1} Y_{t+n}] \quad (8)$$

Substituting for D_t in (7) and (4) yields:

$$D_t = \varpi[(y_t^l - T_t) + (\Omega y_{t-1} - T_{t-1}) + (\Omega^2 y_{t-2} - T_{t-2}) + \cdots\cdots + (\Omega^n y_{t-n} - T_{t-n}) + (\Omega^n y_{t+1} - T_{t+1}) + (\Omega^{n-1} y_{t+2} - T_{t+2}) + \cdots\cdots + (\Omega^{n-n+1} y_{t+n} - T_{t+n})] \quad (9)$$

showing that saving is no longer determined by current income alone. Since Dt is the total amount available for deposit in all banks, how much goes into microfinance banks become imperative as a means of gauging the relative efficiency of these banks at mobilising domestic deposits.

For ease of computational analysis, a model that expresses strict relationship between deposit money banks and microfinance bank deposits is adopted. However, the model is adopted with modification from Woller (2003) as:

$Y_{it} = X_{it}\beta + \mu_{it}$.

The model was run in two dimensions, using different sets of explanatory variables to gauge the existence and level of microfinance bank deposits.

3. Empirical Results

In order to determine the extent of deposit mobilization capacity of Microfinance Banks in Nigeria, data which spanned from the period of 1990 to 2010 were analysed using the Ordinary Least Square (OLS) method of regression analysis. The results are shown in appendices A and B.

From Appendix A, even though the result seems good, judging by the explanatory power of the model and the level of statistical significance, as low as 7.5kobo deposits is made with microfinance banks for every ₦1deposit with deposit money banks in Nigeria. This clearly shows a low level of saving culture with microfinance banks in Nigeria.

After incorporating inflation in Appendix B, the overall result of the model still appear good, coupled with high level of statistical significance. However, as obtained in Appendix 1, with inflation, only 7.4kobo arise as microfinance bank deposits for every ₦1 deposit with deposit money banks. This reduction arises because of the impact of inflation at depressing savings. The model has a strong goodness of fit the level of insignificance of the variables notwithstanding.

The low level of deposits attributable to microfinance banks in the two models could have arisen from two sources: a generally low level of income, and the low level of confidence of the saving public in microfinance institutions.

4. Recommendations and Conclusion

The stream of recommendations that follows flow directly from the empirical result of the study and other qualitative assessment of microfinance institutions.

Improvement in deposit mobilization should centre on creating varieties of deposit accounts, including target savings. The minimum balance on an account should be affordable by the typical rural dweller. Equally, there should be complete flexibility in operation especially as it relates to the frequency of daily operations and negotiable interest rates. Also, the rate of inflation must be brought down to allow savers have more money set aside for saving.

As the need to grow becomes indispensable for microfinance, taking full advantage of capital market opportunities may become an imperative. This will ordinarily allow them have access to the huge pool of funds available in the economy. For now, with a required capital base of N20 million, microfinance has come to stay within the Nigerian overall financial system.

To have growth generated from below through microfinance institutions as obtains in Bangladesh and other parts of the world, more emphasis are needed in transparency of operations, capacity building, and the influx of investment capital from international markets. It is the combination of these that will allow the goal of poverty reduction, economic growth and development as contained in the Regulatory and Supervisory Guidelines of microfinance banks in Nigeria to be realized.

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Appendix A
Dependent Variable: MFBDEP
Method: Least Squares
Date: 01/14/13 Time: 14:35
Sample: 1990 2010
Included observations: 21

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1915.996	1676.221	1.143045	0.2672
DMB	0.007504	0.000427	17.55787	0.0000
R-squared	0.941946	Mean dependent var		19793.40
Adjusted R-squared	0.938890	S.D. dependent var		24683.49
S.E. of regression	6101.863	Akaike info criterion		20.36097
Sum squared resid	7.07E+08	Schwarz criterion		20.46045
Log likelihood	-211.7902	F-statistic		308.2789
Durbin-Watson stat	1.253669	Prob(F-statistic)		0.000000

Appendix B
Dependent Variable: MFBDEP
Method: Least Squares
Date: 01/24/13 Time: 18:41
Sample: 1990 2010
Included observations: 21

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3098.916	2637.519	1.174936	0.2553
DMB	0.007406	0.000466	15.90958	0.0000
INF	-45.01238	76.54583	-0.588045	0.5638
R-squared	0.943040	Mean dependent var		19793.40
Adjusted R-squared	0.936711	S.D. dependent var		24683.49
S.E. of regression	6209.705	Akaike info criterion		20.43718
Sum squared resid	6.94E+08	Schwarz criterion		20.58640
Log likelihood	-211.5904	F-statistic		149.0051
Durbin-Watson stat	1.283758	Prob(F-statistic)		0.000000

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