MICROFINANCE BRANCH NETWORK AND ITS IMPLICATION ON FINANCIAL INCLUSION IN NIGERIA

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Abstract

This study explores the impact of microfinance banks on financial inclusion in Nigeria using data from 2011 to 2023. Microfinance institutions were established to address gaps in the economy left by traditional financial services, aiming to stimulate economic activity, reduce poverty, and foster growth. The research employs a quantitative approach, analyzing secondary data obtained from the World Bank and the Central Bank of Nigeria. Financial inclusion, measured by Financial Deepening (M2), is assessed alongside variables such as microfinance branch networks, microloans, and microsavings. The findings indicate a positive and significant relationship between these variables and financial inclusion. Recommendations include the formulation of comprehensive policies by financial regulators to promote financial intermediation across various sectors, thus enhancing financial inclusion.

Keywords: *Microfinance, Financial Inclusion*

Jel code: C10,C51, EO2

INTRODUCTION

Microfinance institutions have been acknowledged as an effective tool for driving an inclusive financial system, given the fact that Microfinance Banks assume a strategic role in poverty alleviation and subsequently enhancing income equality (Ali,2022; African Development Bank, 2023).The transfer of financial resources from the economy's surplus to its deficit spending units, as well as the distribution of risk management products to individuals with various requirements, depend on an efficient financial system. However, there are still a lot of population groups that the formal financial system is unable to sufficiently serve, leading to substantial gaps in financial access even in the face of rapid economic progress and global economy modernization (Bawa, Sadiq & Antwi, 2023). The gap in financial access remains under-severed. Approximately 2.5 billion persons in working-age worldwide of whom the majority reside in nations in Africa, Asia, Latin America, and the Middle East do not have access to inexpensive, high-quality financial services (Bello, 2022; Aremu, 2023). More than 71% of adults in developing economies are

excluded, making the situation even worse. In Africa, merely 35% of adult individuals possess an account at a formal financial institution (Kassim 2023).

Microfinance branches are often strategically located in rural and remote areas where traditional banks may not have a presence. This geographical reach helps in bringing financial services to people in far-flung areas, overcoming the challenges of distance and accessibility. (Bello, 2022). According to Umar (2023), Microfinance banks design products that cater specifically to the needs of the local population. Tailored financial products, such as microloans and microsavings, are aimed at addressing the unique economic circumstances of individuals in the rural areas purposely to promote inclusive financial service. Microfinance branch networks contribute to overall community development by stimulating economic activities. There are however gap in literature in Nigeria as regard the extent to which microfinace banking activities have enhanced the achievement of the much talked about financial inclusion, previous studies such as Ibrahim, Saheed and Adedoyin (2022), Umar (2023), Aremu (2023) and Kassim (2023) among others specifically focused on the impact of Microfinance on Financial literacy by looking at Financial Inclusion from the rural area investment activities. Hence, creating a literature gap on the impact of Microfinance branch network on Financial Inclusion in Nigeria. Hence, this study seek to empirically examine Microfinance branch network and its implications on financial inclusion in Nigeria in an attempt to bridge the identified literature gap. This research specifically looked at how microfinance branch network, microloans and microsavings contribute to financial inclusion. The following research questions were proffered answers to by this research work:

1. To what extent has Micro-finance branch network affects financial Inclusion in Nigeria?
2. To what extent has Microloans affects financial Inclusion in Nigeria?
3. To what extent has Microsavings influence financial Inclusion in Nigeria?

Conceptual Clarification

Financial Inclusion

Umar (2023) defines financial inclusion, also known as inclusive financing, narrowly as the provision of financial services to underprivileged and low-income groups in society at reasonable costs. This definition limits financial inclusion to the opportunities provided to the underprivileged to obtain financial services. Nonetheless, there is an increasing trend in the literature to view financial inclusion from a broader viewpoint. Accordingly, Financial Inclusion is defined as "the state of the financial system where every member of society has access to appropriate financial products and services for effective and efficient management of their resources, get needed resources to finance their businesses, and financial leverage to take up opportunities that will lead to an increase in their incomes" in the National Development Strategy publication (2021).

In support of this idea, Onaolapo (2022) described financial inclusion as a practice that ensures that all participants in an economy can easily access, be available, and use the formal financial system. According to Kassim (2023), A financial system that is inclusive provides credit to all "bankable" persons and enterprises, insurance to all eligible individuals and businesses, and

savings and payment services to everyone. Financial inclusion, in Kassim's opinion, is just the availability of financial services to all people, not their likelihood of using them all. People ought to have access to a variety of financial services as their standard of living grows.

Concept of Microfinance

The term "microfinance" is popular when referring to funding for small business owners. The idea of microfinance evolved with the specific objective of empowering the impoverished and disadvantaged classes of society, as well as women, who are oppressed due to their gender, caste, creed, religion, or other factors. The guiding ideals of microfinance, namely equality, equity, and mutual self-help, stem from the cooperative concept. The ideas of human progress and the brotherhood of man, which are embodied in individuals cooperating to improve their own and their children's lives, are at the core of these ideals (Sakshi & Khushboo, 2021).

Ehigiamusoe (2019) cited in Ajinaja and Odeyale (2022) suggests that in order to provide inclusive financial services for the poor, microfinance institutions should play a unique role in the distribution of microloans and the mobilisation of microsavings. Low-income and destitute individuals can obtain loans, savings accounts, and other financial services for small companies through microfinance schemes. Aremu (2023) opined that Microfinance banks are crucial for the provision of Microloans to small business as well as provision of microsavings products that stimulate productivity. A branch of the financial industry called microfinance is dedicated to combating poverty, which is widespread in developing nations. It serves as a conduit to close the gap in credit availability that traditional banks established. Proponents of the establishment of an alternative finance model argue that it is imperative to adequately meet the financial requirements of low-income earners and the impoverished, who have historically been overlooked by traditional banks (Onakoya & Onakoya, 2022). In order to solve the issues of financial exclusion and encourage financial inclusion in an effort to spur economic growth and create unfettered development in an economy, it is acceptable to say that microfinance is a specialised financial service provider.

Theoretical Review

Policy Transmission Theory

A number of policies, most notably monetary policy, try to influence the economy via interfering in the money or credit market through financial intermediaries like microfinance institutions (Rajeev and Vani 2017). In particular, both developed and developing economies commonly encounter interventions by the monetary authorities (in this example, the Central Bank of Nigeria) in the form of changes to the repo rate, CRR, etc. However, these kinds of interventions cannot be as successful as they are meant to be if the majority of the populace is not connected to banks (Mehrotra and Yetman 2014). This does not only provide argument for financial inclusion as a tool to drive inclusive policy transmission, but also position the banks as a major participant in the attainment of financial inclusion.

Theory of Financial Intermediation

The goal of intermediation theory is to explain why these financial intermediaries exist. The two important institutions that promote the optimal distribution of resources within an economy are financial markets and financial intermediaries. The idea around financial intermediation started to take shape in the 1960s, thanks to the work of Gurley and Shaw (1960). The financial intermediation theory is based on the agency theory and the idea of informational asymmetry. The following types of reasons, in theory, account for the existence of financial intermediaries: high transaction costs, incomplete information available in a timely manner, and regulatory mechanisms (Aries and Alexandra, 2009).

The second method of financial intermediation is based on the transaction cost theory. Benston and Smith (1976) and Fama (1980) devised this method. This method does not conflict with the theory of perfect markets, in contrast to the previous one. This strategy is predicated on the variations in the technology that each participant uses. Therefore, intermediaries are seen as a group of private creditors or debtors that work together to take advantage of the scale economy at the transaction technology level. According to this perspective, financial intermediaries are financial entities that specialise in the simultaneous purchase and sale of assets and financial contracts. (Benston and Smith, 1976).

They went on to say that financial intermediaries are businesses, including microfinance banks, whose actions can be examined by economists in the same manner as they can be examined by any other kind of business. Therefore, financial intermediaries can be thought of as businesses that create various loan products for those who want to borrow money.

Financial intermediaries provide the following purposes, which are distinguished by the theory: (i) lowering transaction costs; (ii) lowering liquidity risk; (iii) providing information; and (iv) renegotiating debt. The issue of financial market accessibility for businesses and households/individuals is the focus of the first of these functions. The services that banks provide to depositors and which are not available on the financial markets are the subject of the second and third functions. The final function, which deals with the services a bank provides to its borrowers rather than to depositors, is covered in the literature beginning in the late 1990s (Aries and Alexandra, 2009).

The theory of financial intermediation and growth theory were considered suitable as the theoretical underpinning for this study as it explained the dependent variable (financial inclusion) and the independent variables (Microfinance banks activities) and the relationship expected between the two. The Microfinance banks are financial intermediaries whose primary target is to provide financial products and services to the underserved part of the economy by other financial services providers, such as Deposit Money Banks, the Capital Market, among others. In this regard, the Microfinance banks through the mobilization of deposit to finance loans of these underserved individuals and rendition of other types of financial services will be reducing cost of transaction, bridge information gap and entrench the number of Nigerians in the financial system net, thus, making it possible for more inclusive financial system regulation. Consequently, Microfinance banks reduces financial exclusion, bridge information asymmetry gap, reduce risk exposure of the customers and ultimately promotes financial inclusion.

Empirical Review

Using the OLS regression method, Emeka and Udom (2020) conducted an empirical investigation of the contribution of microfinance to financial inclusion in Nigeria between 1990 and 2019. The variables employed were Savings (SAV) and Microfinance Interest Rate (MIR) as a stand-in for Microfinancing, Minimum Deposit Amount (MDA) and Loans and Advances (LA) as a stand-in for Financial Inclusion. In order to prevent erroneous regression results, a unit root test was performed on the variables to determine their degree of stationarity. The results demonstrated a strong and positive correlation between saving and minimum deposit amounts. It has been noted that rural residents' opening of savings accounts is significantly impacted by their access to the Microfinance Minimum Deposit Amount. However, it was shown that there was a weak and negative correlation between interest rates and loans and advances to rural dwellers.

Ajinaja and Odeyale (2020) looked at the problem of financial inclusion and microfinance for the growth of SMEs in Nigeria. Between 2005 and 2019, the study used two different econometrics models to capture and assess for significance in the specified objectives. Whether Financial Inclusion improves low-income savers' financial well-being during the research period was the subject of the first model. The second looked into how microfinance affected small and medium-sized businesses' performance. To ascertain whether the models that were estimated were adequate, Ordinary Least Square Regression was applied to each model. The empirical results in models one (1) and two (2) revealed a link between the performance of small-scale businesses in Nigeria and financial inclusion. According to the study, there is a positive and significant correlation between low-income earners' financial well-being and financial inclusion.

Abifarin and Bello (2021) in their analysis of cooperative banks as a successful financial inclusion tactic in Nigeria, Abifarin and Bello (2021) proposed a positive correlation between the two factors. The conceptual investigation revealed the enormous influence that cooperative banks, through their promotion of financial inclusion, can have on the economy. The study concluded with the observation that Nigeria needs cooperative banking founded on cooperative ideals in order to eradicate poverty, guarantee food security, and generate employment. However, the research did not use any empirical analysis tools to look at how the factors it studied related to one another.

Sakshi and Khushboo (2022) investigated how Financial Inclusion can be actualized through Microfinance institutions in India, the study covers the various kinds of MFIs, how they operate, and a few of the top MFIs in India. We have examined the SWOT of MFIs in India and examined their growth based on the Bharat Report 2020 in order to comprehend the current situation. They pointed out that an inclusive financial system can result in more rapid and equitable growth by providing wider access to financial services. A system like this lessens the vulnerability of impoverished households to economic shocks, enables them to save and manage their money safely, and enables them to take a more active role in their own development. The study came to the conclusion that microfinance is becoming recognised as one of the most potent instruments for eradicating poverty. The article specifically stated that microfinance plays a big part in closing the gap that exists between rural impoverished people and traditional financial institutions. In India, microfinance continues to have a small impact. Less than 5% of low-income rural households in

India have access to microfinance at the national level (compared to 65% in Bangladesh), with considerable state-to-state variance.

Onaolapo and Odetayo (2023) investigated financial inclusion as strategies for survival in a highly competitive global environment: lessons for Nigerian and discovered that financial inclusion is a successful tactic used by microfinance banks to obtain a competitive edge. The study looked at the factors that contribute to financial exclusion in Nigeria and found financial inclusion tactics that banks may utilise to thrive in a highly competitive global market. Data was gathered from all microfinance bank managers in Osun state, Nigeria, through in-person interviews. The study report pinpointed Nigeria's financial exclusion's root reasons. Strategies for Financial Inclusion that microfinance banks can use to increase savings in rural areas and thrive in a highly competitive global market were recommended. The outcome suggested that financial inclusion measures would need to be implemented if Nigerian microfinance banks were to meet their goals and stand a chance against their international counterparts.

Using historical data on a few selected criteria, Okoye, Adetiloye, Erin, and Modebe (2023) investigated the effect of financial inclusion on economic growth and development in Nigeria between 1986 and 2015. Ordinary least squares regression analysis was performed. The study employed several indicators to measure financial inclusion, including Loan to Deposit Ratio (LDR), Financial Deepening Indicators (FDI), Loan to Rural Areas (LRA), and Branch Network (Bbranch). The study measured financial deepening using the ratios of private sector credit to GDP and the overall money supply to GDP. The GDP served as a stand-in for economic growth throughout time, and per capita income (PCI) was selected as a measure of poverty and, by extension, as an indication of development. The study discovered a favourable correlation between financial inclusion and the reduction of poverty in Nigeria through rural credit distribution, but it did not find any evidence that credit delivery to the private sector has had a substantial impact on economic growth in Nigeria.

1.4 Empirical Gap

The aforementioned empirical literature review made it clear that many of the empirical studies focused on the effects of microfinance on small and medium-sized enterprises (SMEs) or rural development, while others examined the effects of financial inclusion on economic growth. A smaller number of studies that examined the relationship between microfinance and financial inclusion focused primarily on rural areas because these areas are home to the poorest members of society. Meanwhile, some urban dwellers also experience financial exclusion; this is not due to a lack of banks, but rather to the nature and cost of the conventional banks' product offerings. However, the majority of these research failed to connect their findings to any pertinent theory that would have explained the connection between financial inclusion and the network of microfinance branches. This research has bridged this literature gap through the use of the transmission theory and financial intermediation theory as the theoretical underpinning for this study. Equally, this study specifically looked at how microfinance branch network, microloans and microsavings contribute to financial inclusion.

METHODOLOGY

This section outlines the way that the research work is designed and the method to be adopted in carrying out this research work.

The population for this study comprises the Microfinance banks in Nigeria. It must be noted that presently there are about 980 Microfinance banks licensed by the Central Bank of Nigeria and actively operating in Nigeria as at January 9, 2023 (CBN, 2023). In addition, there are other Microfinance institutions in the Microfinance subsector performing special functions in Nigeria, they include Micro credit institutions, Cooperative Societies, Savings Unions among others. However, this study focuses on the Microfinance banks, understanding that the Microfinance banks holds the largest portion of public funds in the Microfinance subsector and again, they are listed on the Nigerian Stock Exchange, thereby increasing their tendencies of enhanced liquidity to drive financial inclusion.

Data for the study was obtained from the Central Bank of Nigeria annual statistical Bulletin and the World Bank World Development Indicator (WDI). Data on Financial Deepening, Loan and Advances of Microfinance Banks, Total Deposit of Microfinance banks and Microfinance branch network in Nigeria. these data would be collected within period spanning from 2011 - 2023, this is based on the fact that the National Microfinance Policy of the Central Bank of Nigeria aimed at driving financial inclusion was enacted in 2011 and 2023 is the most recent data that could be gotten for the purpose of this research.

Model Specification

This study Specifically, adapts the model of Ajinaja and Odeyale (2022), which analyzed Microfinance and the challenge of financial inclusion for SME's development in Nigeria
The functional model of the equation is presented as:
FInc = *f(*MBNW)…….. Equation 3.1
MBNW = MBR + ML + MS…… Equation 3.2

Therefore:
FINC = MBR + ML + MS…… Equation 3.3
The econometric model of the equation is presented as follow:
$FInc = \beta 0 + \beta 1 MBR_t + \beta 2 ML_t + \beta 3 MS_t + \mu_t$..... Equation 3.4
Where:

FINC = Financial Inclusion

MBR = Bank Branch Network

ML = Mircoloans

MS = Microsavings

β = Coefficient of estimators

t = time period

Methods of Data Analysis

Tables and chart was used to present the data. Simple regression analysis was used to investigate the extent at which Microfinance Banking Activities affect the Financial Inclusion in Nigeria within the period of 2011 and 2023. This is to enable the researcher identify the pattern and the magnitude of relationship that exists between the dependent and independent variables. The stationarity of individual variable was examined through the use of unit root test to ensure that the data satisfy the conditionality of regression analysis.

Variable measurement

Determinant	Variables	Proxies	Measure	Notation
Financial Inclusion	Y1	Financial Deepening	Money Supply (M2)	FINC
Microfinance Branch Network	X1	Bank Branch Network	Number of Microfinance Banks Branches in Nigeria	MBR
Microloans	X2	Total Loan and advances	Total Loan and advances	ML
Microsavings	X3	Total Deposit	Total deposit	MS

Source: Authors computation (2024).

A priori Expectation

The 'a priori expectation' in the model is that all the independent variables are expected to have a positive relationship on Financial Inclusion measured by Financial Deepening (M2).

DATA PRESENTATION AND ANALYSIS

4.1 Descriptive Statistics

Table 4.1: Descriptive Statistics for All Variables in the Models

Date: 24/02/24 Time: 09:30					
Sample: 2011 2023					
	BBRA	**LADV**	**M2**	**TDEP**	

Mean	824.5833	79383.34	11619.49	86385.14	
Median	823.0000	55541.58	11603.72	76200.80	
Maximum	987.0000	196195.0	**21607.68**	159453.5	
Minimum	695.0000	16450.20	2637.913	34017.70	
Std. Dev.	90.60249	60102.65	6103.544	41782.97	
Skewness	0.280845	0.973720	0.052919	0.487071	
Kurtosis	2.165725	2.724732	1.894958	2.001613	
Jarque-Bera	0.505755	1.934147	1.616159	1.972866	
Probability	0.776563	0.380194	0.734857	0.614816	
Sum	9895.000	952600.0	139433.9	1036622.	
Sum Sq. Dev.	90296.92	3.97E+10	4.10E+08	1.92E+10	
Observations	12	12	12	12	

Source: Researcher's Computation, 2024

4.2.: Pairwise Correlation Analysis

Table 4.2: Pairwise Correlation Matrix

	ML	**M2**	**MBR**	**MS**
ML	1.000000	0.552125	0.492150	0.565356
M2	0.552125	1.000000	0.648718	0.476240
MBR	0.492150	0.648718	1.000000	0.632182
MS	0.565356	0.476240	0.632182	1.000000

Source: Researcher's Computation, 2024

Table 4.2 above shows the correlation between the variables in the first model to establish the relationship existing between the variables and also a preliminary test for multicolinearity. The table showed a positive relationship between loan and advances of microfinance banks and financial inclusion proxied by M2, with a correlation coefficient of 0.55, microfinance branch bank was also found to have a positive relationship with financial inclusion, with a correlation coefficient of 0.6487. The total deposit of microfinance banks was also found to have a positive relationship with financial inclusion. It was also reflected on the table that there exist a positive relationship between the independent variables in the model. The correlation coefficient of loan and advances and microfinance branch bank is 0.49215, while that of loan and advances and total deposit is 0.565356. Equally, a positive relationship exist between microfinance branch bank and total deposit, with a correlation coefficient of 0.6322. With non of the variables having a correlation coefficient of 0.7 and above, it indicates that the variables linearly correlated, hence, does not inhibit autocorrelation.

4.3: Unit Root Test

Table 4.3: Unit Root Result

VARIABLES	Augmented Dickey Fuller @1%		Remarks @LEVEL	Other of integration
	t-Statistic	Prob.*		
M2	0.471702	0.9747	Stationary	I(0)
MBR	-2.198321	0.2174	Stationary	I(0)
ML	0.520405	0.9756	Stationary	I(0)
MS	-3.717698	0.0263	Stationary	I(0)

Summaries of Unit Root Tests: At 99% Critical Levels

@1% significance level

Source: *Researcher's Computation, 2024*

The unit root test was utilised by the researchers to determine whether the time series variables were in a stationary state. This is shown in Table 4.3 above. This is to determine whether there is a false or nonsensical relationship between economic factors. Given our ignorance of the data generation process, this is essential. The results of the Augmented Dickey-Fuller test are displayed in the table below. As the t-statistics are less than the p-values at the 1% threshold of significance, the alternative hypotheses are accepted and the null hypothesis is rejected. Implicitly, all-time series variables are stationary at levels, meaning that the ADF test statistics are greater than the tabulated values, according to the findings of the unit root test using Augmented Dickey-Fuller at the 1 percent level. This verified that the time series variables included in the model did not have a unit root.

Table 4.2.3: Regression Result

Dependent Variable: M2				
Method: Least Squares				
Date: 24/02/24 Time: 09:30				
Sample: 2011 2023				
Included observations: 12				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
MBR	0.044518	0.024056	1.850576	0.0777
ML	0.290294	0.160073	1.813502	0.0834
MS	0.075688	0.030204	2.505858	0.0201

R-squared	0.760293	Mean dependent var		5993.779
Adjusted R-squared	0.756683	S.D. dependent var		6909.874
S.E. of regression	1438.130	Akaike info criterion		17.49224
Sum squared resid	45500773	Schwarz criterion		17.63851
Log likelihood	-215.6530	Hannan-Quinn criter.		17.53281
Durbin-Watson stat	1.925411			

At 5% and 10% level of Significance

Source: *Researcher's Computation, 2024*

Analysis of the Effect of Microfinance Branch network on Financial Inclusion.

This study's main goal is to investigate how Nigeria's microfinance branch network affects financial inclusion. To do this, data on financial deepening (M2), microfinance branch network (MBR), mircoloan (ML), and microsavings were obtained from the Central Bank of Nigeria between 2011 and 2023. Below is an analysis and presentation of the data that was examined using the first linear regression model. According to the above table, the R-squared value of 0.760293 indicates that the independent factors account for roughly 76% of the variance in the dependent variables. The remaining 0.239707 variation in the dependent variable, which represents the error terms, is explained by additional variables not included in this model.

With a coefficient of 0.044 at the 10% significance level, the study likewise shows a weakly positive and significant impact of the microfinance branch network (MBR) on financial inclusion. This suggests that financial inclusion will rise by more than 4% with a percentage increase in the microfinance branch network (MBR). The data also showed that, at the 10% significance level, microloans have a positive impact on financial inclusion as determined by money supply (M2). According to the coefficient of 0.290294 there will be a more than 29% rise in financial inclusion for every unit increase in microloans.

The regression results also showed that, at the 5% level of significance, microsavings had a marginally beneficial impact on financial inclusion as assessed by money supply (M2). A coefficient of 0.075688 indicates that there is a change in financial inclusion of more than 7% for every unit rise in microsavings.

Regression analysis is based on the premise that the data utilised are normally distributed, which is supported by the Durbin Watson statistics of 1.925411 (tending towards 2).

CONCLUSION AND RECOMMENDATION

The results of the study show that microfinance banks are essential to advancing financial inclusion in Nigeria. As such, it is impossible to overestimate the importance of their contributions. The study revealed a general consensus that microfinance branch networks are primarily responsible for promoting financial inclusion in Nigeria by providing microloans to the general public, especially those who own small businesses and reside in rural areas, and by encouraging the mobilisation of microsavings to encourage a saving culture. However, the outcome showed that

microfinance banks have an impact on financial inclusion; as a result, efforts must be directed towards ensuring that these factors are supported in order to hasten financial inclusion.

Recommendations

The following recommendations are put forward for consideration:

In an effort to bring microclients who could not afford or access commercial bank loans into the financial inclusion net, regulators and other statutory compliance entities should keep an eye on the interest rates on loans and advances made by microfinance banks; By introducing marketing packages and a variety of products that cater to various interest groups within the underserved populace, such as the target savings group, microfinance banks can encourage the economically active but underserved segment of Nigerian society to save more money. The government should work harder than it has in the past to ensure that microfinance branches are located in areas that would fulfil the main purpose for which they were established. In addition, they should be convinced to be located close to rural areas so that they can serve a significant portion of Nigeria's potentially productive population that is currently underserved by the formal financial sector.

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