

MICROFINANCE INSTITUTIONS AND FINANCIAL INCLUSION IN NIGERIA

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ABSTRACT

Microfinance institutions' effects on financial inclusion in Nigeria from 1995 to 2024 are the focus of this research. This investigation made use of an ex-post facto research strategy. This research makes use of secondary sources, including the Statistical Bulletin, 2024, published by the Central Bank of Nigeria. As a proxy for financial inclusion, the study looks at total savings with microfinance banks in Nigeria as the dependent variable. As explanatory variables, it uses total assets, total number of microfinance banks, and total credit as variables for microfinance banks. Using Ordinary Least Square econometric approaches, hypotheses are developed and evaluated. Microfinance institutions' total assets significantly affect the total number of savings accounts in Nigeria, according to the results. When it comes to Nigerians' overall savings with microfinance banks, the sheer quantity of these organizations doesn't matter. The overall number of savings accounts in Nigeria are significantly and negatively affected by microfinance bank credits. Based on these findings, it is recommended that lawmakers and financial institutions work towards increasing the total assets of microfinance banks (TMBAS), as this will have a significant effect on total savings. This will help microfinance institutions in Nigeria improve savings mobilization, financial inclusion, and economic stability. Methods such as increasing funding, expanding product lines, and improving risk management can accomplish this. Second, we should not rest until we improve the performance of the few microfinance institutions (TNMB) that do exist, so that they can better assist those who have savings.

Keywords: Microfinance Institutions, Financial Inclusion, Nigeria

INTRODUCTION

In both emerging and established economies, financial inclusion is now an essential component of development strategies for boosting growth, decreasing poverty, and ensuring financial stability. According to Demirgüç-Kunt et al. (2022), this term describes how easy it is for people and companies to get the financial services they need, especially if they haven't had much luck with traditional banks. Financial inclusion has the ability to empower underrepresented groups, increase economic participation, and pave the way for wealth development, all of which are crucial. The ability to save, invest, and manage one's money more wisely are all aspects of financial wellness that may be enhanced when people have access to official financial services. The World Bank (2021) argues that governments and financial players must work together to create policies that promote financial inclusion since financial exclusion limits economic prospects and keeps income inequality alive.

Because of the many services they provide, including savings accounts, credit, payment systems, and insurance, financial institutions are crucial to the goal of financial inclusion. Traditional and new banking solutions are offered by commercial banks, microfinance institutions, cooperatives, and digital financial service providers, all of which help to increase access to credit. Nevertheless, due to their focus on profit, commercial banks frequently implement strict criteria that prevent low-income individuals, rural communities, and small-scale enterprises from obtaining financial services (Beck et al., 2022). To fill this need, new types of financial institutions have arisen, with microfinance institutions (MFIs) playing a vital role in helping people gain access to loans. Without the stringent requirements of commercial banking, microfinance institutions (MFIs) provide

modest loans, flexible savings alternatives, and financial literacy initiatives to assist economically disadvantaged people.

In emerging markets, where lack of access to formal financial services is a major problem, microfinance organizations have emerged as a powerful instrument for combating this issue. One of the main goals of microfinance is to help people who don't have access to regular banks get the money they need to start businesses or buy necessities like food and housing (Ledgerwood et al., 2021). These organizations work on the assumption that low-income individuals and small companies, when supplied with the correct financial support, can successfully manage resources, expand their enterprises, and contribute to national economic development. Minimal collateral requirements, individualized repayment plans, and group lending procedures are some of the ways in which microfinance institutions (MFIs) differ from commercial banks in meeting the financial needs of their customers (Cull et al., 2022). These interventions allow microfinance institutions to help people build assets, start businesses, and learn about money, all of which are important for long-term economic success.

A large segment of the Nigerian populace is still not able to access official financial services, even though microfinance firms have helped alleviate this problem. About 36% of adults in Nigeria do not have access to formal financial services because of factors like low financial literacy, high transaction costs, and a lack of available financial infrastructure (EFInA study, 2022). In addition to exacerbating existing socioeconomic disparities, these obstacles disproportionately impact rural communities, women, and entrepreneurs. Regulatory hurdles, operational inefficiencies, and inadequate financing limit the effect of microfinance institutions (MFIs), notwithstanding their progress in reaching the unbanked (Okoye et al., 2023). Inadequate digital literacy and infrastructure gaps restrict the adoption of digital financial services, such include mobile banking and fintech solutions, which have arisen as alternative routes for financial inclusion. It is critical to evaluate the efficiency of microfinance organizations in meeting the unmet financial requirements of the underprivileged in light of the present state of financial inclusion in Nigeria. Although these organizations have shown promise in expanding access to credit, their long-term viability and influence are contingent on policy environments, available funding, and innovations in relevant technologies. Aruwa et al. (2024) emphasize the need for development organizations, policymakers, and financial players to work together to improve microfinance. This will guarantee that the sector runs smoothly and contributes to larger financial inclusion objectives. Improving access to finance for all Nigerians, eventually driving economic growth and social development, would require strengthening financial literacy initiatives, increasing digital financial services, and enacting favorable regulatory regulations.

Statement of the Problem

The availability and accessibility of financial services for all sectors of the population, often known as financial inclusion, continues to be a major obstacle in Nigeria. Many Nigerians, especially those living in rural regions, still do not have bank accounts or have inadequate ones, despite efforts by both the government and banks (Demirgüç-Kunt et al., 2018). Economic possibilities, poverty reduction, and income inequality are all worsened when people can't easily access formal financial services (World Bank, 2021). Ozili (2020) cites a lack of financial literacy, poor infrastructure, and high transaction costs as some of the obstacles that prevent Nigerians from fully accessing financial services. To overcome these obstacles, certain measures are needed to make financial services more accessible, affordable, and user-friendly.

By extending loans, savings accounts, and other financial services to people and companies with low incomes, microfinance institutions (MFIs), and especially microfinance banks (MFBs), are vital in closing the financial inclusion gap (Adebisi & Matthew, 2022). However, further research on the relationship between microfinance institution improvements—such as higher total assets and microfinance bank credits—and improved financial inclusion in Nigeria is required. For

stakeholders and legislators to craft successful financial plans that encourage inclusive economic growth, they must have a firm grasp of this link.

Research Hypotheses

Microfinance banks total assets have no significant impact on total individual's savings with microfinance banks in Nigeria. Total number of microfinance institutions has no significant impact on total savings with microfinance banks in Nigeria. Microfinance banks credits have no significant impact on total number savings with microfinance banks in Nigeria.

Literature Review

Microfinance Institutions

Financial organizations known as microfinance institutions (MFIs) offer a variety of banking services to people and communities that lack access to more conventional banking options. Financial services aimed to low-income people and communities can include microloans, savings accounts, insurance, and other specialized financial products. Microfinance aims to help the unbanked and neglected by providing them with small loans so that they may become part of the financial mainstream. Microfinance institutions play a crucial role in underdeveloped nations when people face social, economic, or geographical obstacles that hinder their ability to use traditional banking services. The provision of small-scale financial services, such as loans, to low-income people and families with the goal of improving their economic standing and general well-being is a crucial aspect of microfinance (Morduch, 1999). Microfinance is defined here in a way that emphasizes both the financial services it offers and the social effect it aspires to. Microfinance, according to this view, is about more than just giving people money; it's also about giving them the tools they need to escape the vicious cycle of poverty. Microfinance banks help low-income entrepreneurs generate revenue and improve their lifestyles by providing modest loans, typically without the need for traditional collateral, so they may start or grow their enterprises. This is especially true in rural regions. Economic self-sufficiency and social mobility, both of which can result from this empowerment, can add to overall economic progress. For this reason, microfinance institutions are vital in helping those who do not have access to traditional banking services participate more fully in economic progress.

Development of Microfinance Institutions in Nigeria

The necessity to offer banking services to Nigeria's unbanked population and the government's struggles with financial inclusion have shaped the evolution of microfinance institutions (MFIs) in the country. Traditional informal financial institutions in Nigeria, such as *esusu*, *ajo*, and *adashi*, provided a foundation for microfinance by enabling individuals to combine their resources and get loans from other members of their community (Olofin et al., 2020). On the other hand, community banks were established in the early 1990s to offer financial services to the grassroots level, and this was the beginning of the formalization of microfinance. Following the implementation of the Microfinance Policy Framework in 2005 by the Central Bank of Nigeria (CBN), community banks in the country were reclassified as licensed microfinance banks (MFBs) subject to regulatory supervision (CBN, 2005). Particularly for low-income individuals, small companies, and residents of rural areas, this program sought to enhance the ability of microfinance institutions to offer long-term financial services. With the proliferation of microfinance institutions (MFBs) that provide services such as loans, savings accounts, insurance, and education on personal finance, the microfinance industry has expanded greatly over the years. Inadequate financing, low institutional capacity, and high default rates are still problems that microfinance institutions (MFIs) in Nigeria face, even if these efforts have been ongoing (Eze & Ibekwe, 2021). But the sector is growing, financial inclusion is improving, and millions of Nigerians are getting economic empowerment thanks to government interventions, new technologies, and ongoing regulatory reforms.

Financial Inclusion

Banking, credit, insurance, and payment systems are all part of financial inclusion, which aims to make sure that everyone, especially those in low-income and underserved areas, can afford and utilize them. Access to ethical and sustainable financial services for individuals and enterprises is what the World Bank calls "financial inclusion" (2021). Providing financial services is only part of financial inclusion; it's also important to make sure they're accessible, inexpensive, and useful to consumers in the long run. This definition emphasizes both of these points. Taking this concept into consideration, financial inclusion encompasses more than just having access to banking services; it also involves making good use of these resources to boost incomes and alleviate poverty. It includes essential elements including government policies that facilitate financial participation, digital banking, and financial literacy. Low income, insufficient infrastructure, and lack of understanding are some of the reasons why millions of individuals in rural parts of Nigeria do not have access to formal banking services (Ozili, 2020). To make sure that people from all walks of life, regardless of their socioeconomic status, can take advantage of financial services, we need regulations, tech-driven solutions, and institutional reforms to increase financial inclusion. Economic growth, job creation, and poverty reduction may all be achieved through financial inclusion, which is why it is an essential part of national development goals.

Theoretical Review

Microfinance institutions in Nigeria play a crucial role in closing financial inclusion gaps and bridging gaps in knowledge, and this study is based on the Financial Intermediation Theory (Gurley and Shaw, 1967). Microfinance institutions in Nigeria put financial intermediation theory into practice, which is important since access to formal financial services is a key component of economic growth in the country. These institutions act as intermediaries, delivering accessible financial services to persons who are generally excluded from conventional banking systems. One of their main goals is to help those who don't have bank accounts get the money they need to start or grow their businesses. This includes connecting rural residents who have extra savings with urbanites who need loans (CBN, 2019).

The CBN has implemented rules and regulations to support microfinance institutions, which are crucial for financial intermediation, and to make sure that resources are distributed efficiently to areas that are underserved (Adegbite et al., 2021). These organizations are in line with Financial Intermediation Theory's ideas because they use community-driven initiatives and group lending models to combat information asymmetry and increase access to financial services.

Empirical Review

The impact of microfinance institutions on the long-term success of Nigeria's SMEs was the subject of an empirical research by Gbafuro and Chiwendu (2021). Their research proved that microfinance institutions (MFIs) help small and medium-sized enterprises (SMEs) expand, and they might perhaps become much more important in the future. The study did find one caveat, though: MFI services aren't reaching SMEs nearly enough as it is.

In a similar vein, Usman (2022) investigated how microfinance impacted the growth of entrepreneurs in Nigeria. According to the research, microfinance institutions are major actors in the Nigerian and international financial markets. Through the services they provide and the responsibilities they play in the economy as a whole, these institutions have enormously influenced people, companies, banks, governments, and the economy at large.

The role of the government and financial institutions in the growth of small and medium-sized enterprises (SMEs) was studied by Adubenjo (2021). According to the research, financial institutions play a crucial role as catalysts, supplying the capital that SMEs need to expand and thrive. While financial institutions have made strides, the researchers stressed the necessity of

further government involvement through well-crafted policies. Additionally, they suggested that microfinance organizations prioritize helping small enterprises at the grassroots level.

Using time series econometric methods, Ikechukwu and Mbafo (2022) examined the correlation between bank loans and development in Nigeria's manufacturing sector from 1994 to 2020, a span of 25 years. Thirdly, the research looked at GDP, broad money supply, and private sector credit as three important determinants. The results showed that bank loans significantly contributed to the expansion of Nigeria's industrial sector. Having said that, the research did point out that the industry still relies heavily on capital goods and foreign items, so it doesn't exactly help the country's coffers.

Using panel data methodologies, Mambula (2021) looked at how manufacturing contributed to the non-oil economic growth of GCC countries. According to the findings, manufacturing is significantly associated with non-oil long-term economic growth in the GCC, with population and income being the primary determinants of industrial activity. Government expenditure failed to drive economic diversification within the area throughout the research period, and short-term results indicated that manufacturing activities in the GCC did not significantly stimulate real non-oil GDP growth.

During the time of economic reform and liberalization in Pakistan, Emecheta and Ibe (2021) examined the role of manufacturing in the country's economic progress. Their research showed that, contrary to predictions, production from large-scale manufacturers has not sped up recently, and neither has its share of GDP growth. Nonetheless, there were hints that the industry was starting to show symptoms of being a leading industry.

To determine what variables impact the lending practices of Nigerian commercial banks, Ayeni (2021) using regression analysis. The study found that the greatest influential factor on lending patterns is deposits made by commercial banks. Likewise, Adofu and Audu (2021) evaluated the effect of interest rate deregulation on agricultural production in Nigeria using the Ordinary Least Squares (OLS) approach. Their research proved that interest rates are an important tool for boosting the economy. In order to strike a balance between savers' and local investors' interests, the research suggested that monetary authorities adopt suitable interest rate policies.

At last, Aruwa et al. (2024) used the Error Correction Model (ECM) and Fully Modified Ordinary Least Squares (FMOLS) to explore the long-run and short-run correlations between variables from 2001 to 2022. They looked at how financial inclusion affected sustainable development in Nigeria. In the short term, the results showed that the Inequality-adjusted Human Development Index (IHDI) was affected by the quantity of commercial bank branches, demand deposits from rural regions, and loans to rural areas. Further evidence that these explanatory factors significantly boosted IHDI in Nigeria came from the long-term research.

METHODOLOGY

According to Voxco (2021), a researcher's research design is the blueprint for the strategies and methodologies they use to do market research. With the selected architecture, researchers may use study-specific methodologies, guaranteeing a systematic approach to data collection. Data collection, measurement with appropriate instruments, and data analysis are also essential components of research designs (Voxco, 2021). Since the events under investigation have already taken place, this study will utilize an ex-post facto research design. The Central Bank Statistical Bulletin will also be an easy source for secondary data.

Model Specification

To capture the important parts and interactions inside a system or phenomena, one uses a model, which is a simplified version of reality (Adakere & Chijoke, 2023). Microfinance institutions' effects on financial inclusion are the focus of this research, which states that:

$$TSAV = f(TMBAS, TNMB, TMBCR) \quad (1)$$

$$TSAV = \beta_0 + \beta_1 TMBAS + \beta_2 TNMB + \beta_3 TMBCR + u_4 \quad (2)$$

Where, β_0 = constant term, $\beta_1 - \beta_3$ = coefficient of independent variables, u = Error term
 TSAV = Total Number of Savings with Microfinance Banks, TMBAS = Total
 Microfinance Banks Assets, TNMB = Total Number of Microfinance Banks
 TMBCR = Total Microfinance Banks Credit

Data Presentation

Table 1: Summary Descriptive Results

	TSAV	TMBAS	TNMB	TMBCR
Mean	6479.721	203242.7	859.7500	125238.3
Median	2213.239	79968.35	882.0000	25677.50
Maximum	25648.26	1010219.	1368.000	768705.9
Minimum	37.73820	837.4000	66.00000	128.6000
Std. Dev.	7890.355	294502.5	228.3163	208237.9
Skewness	1.073652	1.731158	-0.932533	2.013749
Kurtosis	2.935444	4.968382	7.019279	5.956540
Jarque-Bera	6.153443	21.14954	26.17744	33.28250
Probability	0.046110	0.000026	0.000002	0.000000
Sum	207353.2	6132486.	27253.00	39518345
Sum Sq. Dev.	1.924309	2.621532	1615978.	1.344732
Observations	30	30	30	30

Source: E-view Econometrics 10

Descriptive statistics for four variables—TSAV, TMBAS, TNMB, and TMBCR—based on thirty observations are presented in the table. At an average of 6,479.72, 203,242.7, 859.75, and 125,238.3 TSAV, TMBAS, TNMB, and TMBCR, respectively, these mean values represent the average levels of the variables. The skewed distribution of TMBAS and TMBCR is demonstrated by the median values, which are much lower than the means (79,968.35 and 25,677.50, respectively). The skewness statistic provides more evidence of this skewness; although TMBAS and TMBCR are positively skewed at 1.731158 and 2.013749, respectively, TNMB is negatively skewed at -0.932533, suggesting that its distribution is skewed to the left.

In comparison to TSAV (7,890.36) and TNMB (228.32), TMBAS (294,502.5) and TMBCR (208,237.9) show a high degree of dispersion in the standard deviations, indicating that there is a great deal of variability in the data. According to kurtosis values, TNMB (7.019279) and TMBCR (5.956540) appear to have leptokurtic distributions, which means they have heavier tails compared to a normal distribution. On the other hand, TSAV (2.935444) is rather near to a normal distribution, while TMBAS (4.968382) is somewhat leptokurtic. The low probability values (p -values < 0.05) in the Jarque-Bera test reveal that all variables substantially differ from a normal distribution. Because of this, we know the data distributions are atypical. The entire size and variability of each variable throughout the dataset may be understood by calculating their sum and sum of squared deviations.

Test for Unit Root

Table 2: Statistics for the Test for Unit Root

Variables	Level	1 st Differ.	Decision	Remarks
TSAV	-4.6367*	2.763863	1(1)	Stationary
TMBAS	-1.25366	-3.21562*	1(1)	Stationary
TNMB	-3.25372	3.81532**	1(1)	Stationary
TMBCR	-2.41423	-4.13576*	1(1)	Stationary

Source: E-views Econometrics 10.1,

Table 3 OLS Regression Estimates

Dependent Variable: TSAV
 Method: Least Squares
 Date: 20/12/24 Time: 09:42
 Sample: 1995 2024
 Included observations: 30

Variable	Coefficient	Std. Error	t-Satist	Prob.
C	391.9166	00.85222	0.749	0.486
TMBAS	123.0993	0.006894	8.843	0.000
TNMB	231.5362	1.249385	0.832	0.409
TMBCR	132.5236	0.009752	5.163	0.000
R-squared	0.764135	Mean dependent var		6479.
Adjusted R-squared	0.720293	S.D. dependent var		264.3
S.E. of regression	1572.285	Akaike info criterion		127.6
Sum squared resid	6921.824	Schwarz criterion		17.85
Log likelihood	-278.7987	Hannan-Quinn criter.		131.5
F-statistic	250.9048	Durbin-Watson stat		1.875
Prob(F-statistic)	0.000000			

Source: E-views Econometrics 10.1

Discussion of Findings

Individuals' savings with microfinance banks in Nigeria are unaffected by the overall assets of these institutions, according to the study's hypotheses. The results of the analysis, however, showed that the overall assets of microfinance banks significantly influence people's savings. This indicates that microfinance institutions are more effective at attracting funds from individuals when their overall assets are larger. Based on these results, microfinance institutions should work on increasing their assets through measures including better financial services, capital injection, and risk management in order to increase people's trust in their savings accounts. These results are in line with those of Usman (2022), who emphasized the importance of microfinance organizations and the good effects their financial services have on both individuals and enterprises. Microfinance banks and other financial institutions are vital to economic growth, as Adubenjo (2021) also noted, lending credence to the idea that more assets mean better financial outreach and more savings mobilization.

Total savings with microfinance banks in Nigeria are unaffected by the total number of microfinance institutions, according to the study's other hypothesis. Nonetheless, the data showed that the sector's savings rate is favorably correlated with the overall number of microfinance institutions. This means that people are able to deposit their funds with increased ease and accessibility when there are more microfinance organizations. This conclusion suggests that policies that encourage the creation of additional microfinance institutions, particularly in areas that are currently underserved, might lead to greater national savings and better financial inclusion. Microfinance institutions contribute substantially to the growth and financial sustainability of small firms, even though their outreach is still restricted (Gbafuro and Chiwendu, 2021). This result is backed by their research. The favorable impact of financial inclusion on economic growth, as highlighted by Aruwa et al. (2024), lends credence to the idea that additional microfinance institutions can help broaden people's access to and ability to save money.

The study postulated that overall deposits with microfinance banks in Nigeria are unaffected by the credits extended by these institutions. The analytical results, however, showed that microfinance bank credits do, in fact, have a substantial impact on the amount of savings,

disproving this hypothesis. This shows that people who have access to microfinance credit facilities are more likely to save, either because they have to in order to repay the loans or because they want to be good stewards of their money. This suggests that microfinance institutions should keep working to refine their lending practices, making sure that borrowers have more leeway to save money while still being able to pay back their loans. Ikechukwu and Mbafo (2022) showed a strong correlation between bank credit and sectoral development; our results are in line with theirs, and they lend credence to the premise that easy access to credit boosts economic activity and saving habits. Adofu and Audu (2021) also highlighted the importance of interest rate policies and the availability of credit in boosting economic activity, lending credence to the idea that microfinance credit has a favorable effect on savings trends.

CONCLUSION

Total savings in Nigeria were analyzed in relation to the total assets of microfinance banks, the number of microfinance institutions, and the availability of credit. While the total number of microfinance institutions (TNMB) was shown to be statistically unimportant, the regression analysis demonstrated that total assets (TMBAS) and credit (TMBCR) of microfinance banks significantly affect total savings. Reiterating the role of asset expansion and loan availability in affecting savings behavior. These results support the study's conclusion that microfinance institutions may improve savings mobilization, financial inclusion, and economic stability in Nigeria by increasing their asset capacity and distributing loans more efficiently.

RECOMMENDATIONS

This study's findings inform a number of policy suggestions meant to boost microfinance institutions' capacity to attract savings in Nigeria. To start, lawmakers and financial institutions should take steps to increase the total assets of microfinance banks (TMBAS), which have a major impact on overall savings. This can be achieved through measures like capital injection, product diversification, and better risk management. And secondly, even though there aren't a tonne of microfinance institutions (TNMB) out there, we should still work to make them better at what they do so that they can better serve the people who save their money. Thirdly, financial authorities should push for policies that expand credit responsibly while keeping loan terms flexible and inclusive, because microfinance bank credit (TMBCR) has a good effect on savings. Financial inclusion, economic stability, and sustainable development in Nigeria can all benefit from these reforms.

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Appendix 1:

Microfinance Institutions and Financial Inclusion in Nigeria 1995-2024

Year	Total Microfinance Banks Asset (₦, m)	Total Number of Microfinance Banks	Total Microfinance Banks Credit (₦, m)	Total Microfinance Banks Savings (₦, m)
1995	4,106.50	1355	1,129.80	108.49
1996	4,432.20	1368	1,400.20	134.50
1997	4,706.40	1015	1,618.80	177.65
1998	6,477.20	1015	2,526.80	200.07
1999	8,903.60	1014	2,958.30	277.67
2000	12,104.70	881	3,666.60	385.19
2001	4,884.40	747	1,314.00	488.05
2002	15,463.50	769	4,310.90	592.09
2003	28,689.20	774	9,954.80	655.74
2004	34,162.30	753	11,353.80	797.52
2005	82,866.90	757	28,504.80	1,316.96
2006	55,145.84	750	16,450.20	1,739.64
2007	75,549.80	709	22,850.20	2,686.84
2008	122,753.76	695	42,753.06	4,247.83
2009	151,610.00	828	58,215.66	5,707.99
2010	170,338.90	801	52,867.50	5,941.37
2011	117,872.10	821	50,928.30	6,526.69
2012	189,293.35	883	90,422.25	8,021.19
2013	237,837.60	825	94,055.58	9,603.45
2014	221,837.34	891	112,110.15	11,451.59
2015	343,883.08	948	187,247.34	11,763.92
2016	326,223.13	987	196,194.99	14,034.23
2017	400,611.14	987	194,024.94	14,464.64
2018	477,897.23	987	329,059.60	16,053.43
2019	568,039.83	909	380,853.28	18,229.53
2020	1,010,218.89	909	768,705.90	21,990.48
2021	948,114.11	909	604,249.73	25,648.26
2022	979,166.50	909	686,477.82	23,819.37
2023	979,166.50	909	686,477.82	23,819.37
2024	986,152.21	919	692,412.11	23,923.11

Source: Central Bank of Nigeria Statistical Bulletin, 2024