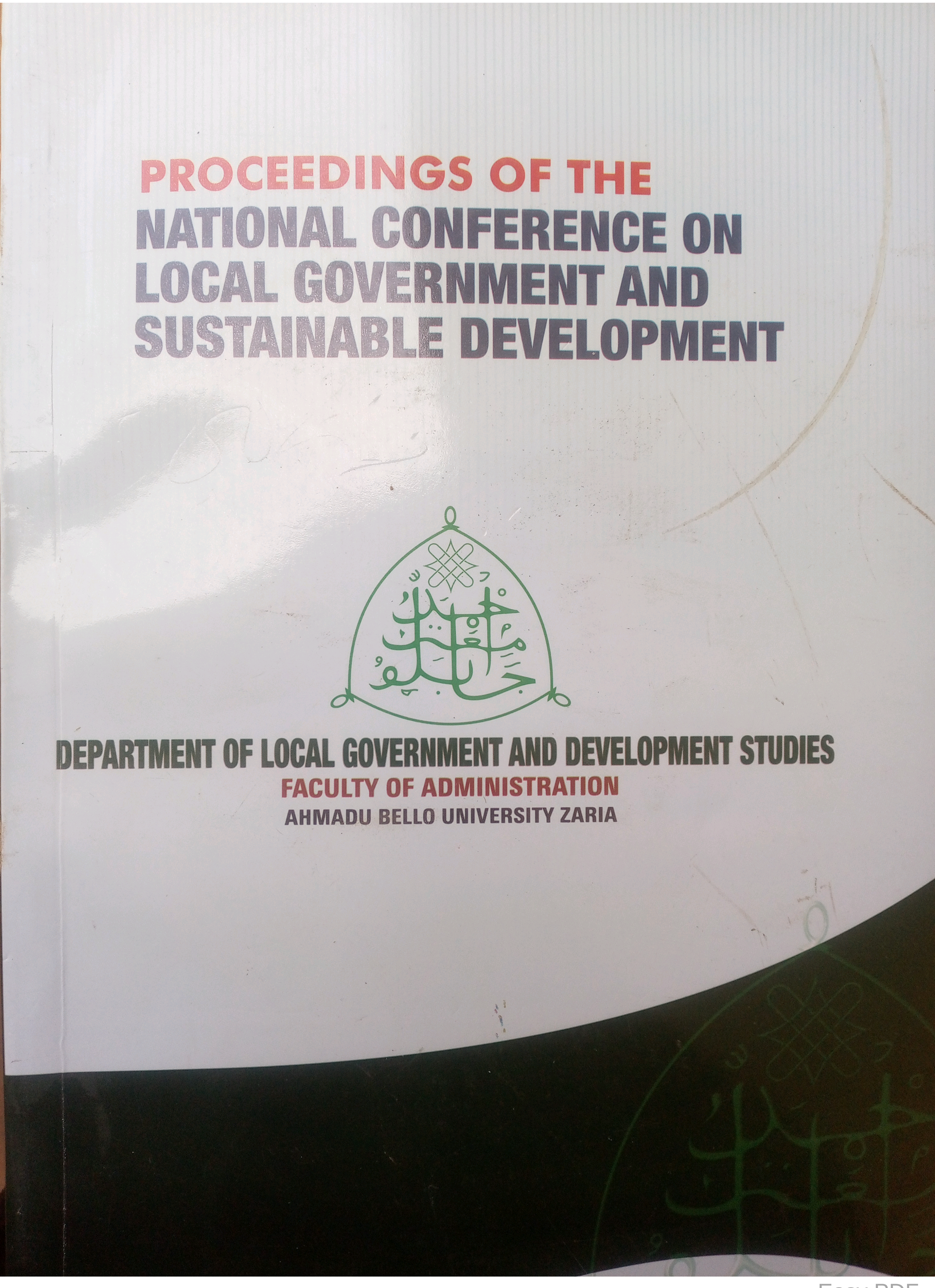

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EVALUATION OF PERFORMANCE OF DEVELOPMENT FINANCE INSTITUTIONS (DFIs) AS A POLICY IN ACCELERATING CAPITAL FORMATION IN RURAL FINANCING IN NIGERIA: 2006-2015

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Abstract

The proper channeling of funds and allocation of financial resources are important roles expected to be undertaken in the financial system of a country to facilitate productive growth in the rural areas. This necessitated the emergence of Development Finance Institutions (DFIs) to render financial services to the large neglected people (especially in the rural areas) by the traditional banks in Nigeria. Thus, DFIs are expected to offer specialized and micro financial services, offer relative cheap and accessible financing options for agriculture, Small and Medium Enterprises (SMEs) development and other financial products. It is however evident DFIs are not performing their functions properly. It was on this note that this study examined the role and performance of DFIs in rural financing in Nigeria. The study used two DFIs of Bank of Agriculture (BOA) and Bank of Industry (BOI). The data was collected through secondary source of CBN and NBS statistical bulletin and publications from the year 2011- 2015. Multiple regression was adopted as tool of analysis while SPSS 20.0 was used to process the data. The study found that both the BOA loans and BOI loans are positively insignificantly related to rural development in Nigeria for the period under study. It was recommended that the monetary authority (CBN) must continue to appraise and monitor the credit delivery channels and formulate policies that would facilitate the delivery of the facilities for rural financing.

Keywords: *Development Finance Institutions, Financial Intermediation, Rural Finance, Nigeria.*

Introduction

In many developing countries, a great deal of effort has been concentrated in boosting finance for economic activities in rural areas. The new rural finance paradigm is premised on the fact that rural people are bankable (Nagarajan & Meyer, 2006). There have been extensive financial reforms to ensure continuous access to credit by individuals in rural areas in Nigeria. However, the Nigerian economy continues to be driven by factor accumulation which has led to unsustainable growth (Central Bank of Nigeria, CBN 2015). In the opinion of Egbetunde (2012), the Federal and State governments in Nigeria have recognized that for sustainable growth and development the financial empowerment of the rural areas is vital, being the repository of the poor in society.

The traditional banks have neglected providing financial services tailored for the rural people (Hao, 2006). Strategies have been instituted to create financial intermediary between financial institutions and the rural people by the Federal Government to improve capabilities of the rural areas positively. According to Levine and King (2002) financial intermediaries play important roles in the operation of most economies he, further stated that the efficiency of financial intermediaries can also affect economic growth. As such Iwedi and Igbanibo (2015) suggests that financial intermediation could serve as a catalyst for economic development of rural areas by efficiently allocating funds mobilized from the surplus economic units to deficit units through the process of intermediation.

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Development Finance Institutions (DFIs) refers to generic term used to refer to a range of alternative financial institutions (Adesoye & Atanda, 2014). A motley of state-sponsored DFIs have been operating in Nigeria for decades, these include Bank of Agriculture, Bank of Industry, Federal Mortgage Bank of Nigeria, The Infrastructure Bank, and Nigerian Export-Import Bank (DFI forum, 2014). DFIs are established with specific mandate to develop and promote key sectors of the economy considered to be of strategic importance to the overall socio-economic development objectives of the country (CBN, 2015). Such sectors include agricultural, industrial, manufacturing and entrepreneurial activities that can assist in achieving accelerating, improving and facilitating economic growth and development (Ahmad, 2016). DFIs help in promoting rural financial services to low income people.

Rural financial services refers to financial services extended to agricultural and non-agricultural activities in rural areas; these include money deposit/savings, loans, money transfer, safe deposit and insurance. According to Miller and Jones (2010), People living in rural areas need access to financial services to purchase agriculture inputs; obtain veterinary services; maintain infrastructure; contract labour for planting/harvesting; transport goods to markets; make/receive payments; manage peak season incomes to cover expenses in low seasons; invest in education, shelter, health; or deal with emergencies. The beneficiaries of rural financial services are mainly small scale farmers, small and medium scale enterprises which are producers, suppliers, traders, agro-processors and service providers.

Development Financial Institutions (DFIs) have emerged to fill the gap created by the mainstream banks which locked out these low income earners (Kibaara 2006). Based on this argument, Adesoye and Atanda (2014) argued that financial sectors are usually incomplete in as much as they lack a full range of markets and institutions that meet all the financing needs of the economy the authors proceeded that there is generally a lack of availability of long-term finance for infrastructure and industry, finance for agriculture and small and medium enterprises (SMEs) development and financial products for certain sections of the people.

The performance of these DFIs in meeting their objectives has however been minimal. According to Oguh (2007), perhaps the biggest pointer to the DFIs catalytic potential is its mandate to lend to clients, defined by size and not limited to one specific sector. The Bank of Industry for instance, lends mostly to businesses in the industrial sector. The Bank of Agriculture provides financing exclusively to agro-allied companies, while the Nigerian Export-Import Bank funds the development of export-oriented businesses. Even with the various mandates, some sectors are not specifically covered by any DFI. At best, coverage in the rural based sectors are spatial. But the DFIs have been designed to lend across all sectors of the economy.

Part of the reasons DFIs in Nigeria have under-performed is that appointment to their Boards and management is mainly political. Notwithstanding the competence of such appointees, their tenure is not always sacrosanct, ironically for the same political reason. Inadequate governance and risk management have contributed to the underperformance of DFIs. Being state-sponsored credit funds, DFIs are usually susceptible to nepotism and cronyism.

Another paramount problem hindering performance of DFIs is funding. The non-availability of funds by the DFIs to rural financing might be due to the high credit risk and low expected returns (Nzonta, 2004). In view of this particular circumstance of credit complexity in rural areas, and peculiar constraint that surround credit availability to rural entrepreneurs, reports have shown that a sustainable way to reduce this problem is through enhanced savings mobilization from rural entrepreneurs themselves to increase the amount of loanable funds in rural banks as well as to increase the extent to which they accumulate capital for rural development activities (Central Bank of Nigeria, 2004).

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In addition, Vonderlack and Schreiner (2001) reported that policies that focus on improving services for savers are therefore, a better way to help to improve the welfare of the rural people than is cheap credit. Among the many DFIs reaching rural people is the Bank of Agriculture (BOA). Anyanwu (2004), posited that using BOA by DFIs as an intermediary could be more efficient because the BOA has grass root orientation and greater expertise in financing rural people. Therefore, this justifies the need for evaluating the roles of BOA as an agent of DFIs in facilitating effective financial intermediation at the rural level financing. Also, Bank of Industry (BOI) is an intermediary set up to reach the rural people. The BOI provides financial assistance for the establishment of large, medium and small projects; as well as expansion, diversification and modernization of existing enterprises; and rehabilitation of ailing industries.

The paper made use of two DFIs of Bank of Agriculture (BOA) loan and Bank of Industry (BOI) loan. The reason for using these two DFIs is that they are grass root oriented, and thus closer to the rural people (CBN, 2015). The study made use of secondary data from CBN and National Bureau of Statistics for the period of 2006-2015 to examine the significant effect of Bank of agriculture Loan on rural financing in Nigeria as well as to examine the significant effect of Bank of Industry Loan on rural financing in Nigeria.

Statement of the Problem

The lack of efficient financial intermediation in Nigeria is widely evidenced by the mismatch between institutional savings, lending and investment (CBN, 2012). It is however clear that the need for investment in the real vibrant sectors of countries and in the rural areas has resulted to the introduction of DFIs and other financial vehicle programmes to provide credit at below market rate which cannot be provided by the first ranked financial institutions (Okeh, 2012). The poor performance of the DFIs has remained a major challenge to the government and the monetary authorities in Nigeria. Studies have shown that rural people are still unable to get access to funds from these DFIs; it is on this premise that this study examines the performance of (BOA, BOI loans) as two DFIs in Nigeria in rural financing.

According to Oluyemi (1995) development institutions are seen as the engine room for development especially in rural areas. In Nigeria, studies especially those of Adekunle (2013), Acha (2012), Okeh (2012), Adelakun (2010) have shown that the financial system is not fully developed and such DFIs have not attained the standards expected from them in the process of rural financing. DFIs have not really met with the high demand for loans and advances. It has been argued that DFIs have contributed less than expected due to lack of access to funds. Thus this study is timely to evaluate their performance.

Consequently, Iwedi and Igbanibo (2015) opine that DFIs have not demonstrated the necessary capability to thrive in this space which has resulted in a largely underperforming sub-sector especially in the rural areas. Also, theoretical and empirical research have given little emphasis on the nature of financial development made by DFIs to the rural areas and how it affects the sub-sector of the rural economic activities. This study is thus timely to examine this problem.

Also previous studies in Nigeria on DFIs did not look at DFIs like BOA and BOI and their financial service roles especially in the area of loan. These institutions have rural aura and thus are closer to the rural people. However, studies have shown that rural people are usually neglected from assessing credit to facilitate their productive capacity. It is therefore imperative to evaluate the performance of these DFIs (BOA, BOI) to see if they are living up to their expectation of financing rural people. It is on this backdrop that the paper answers the following questions: To what extent does the Bank of agriculture Loan affect rural financing in Nigeria? To what extent does Bank of Industry Loan affect rural financing in Nigeria?

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In line with the questions, the hypothesis are stated below in null form H_{01}: Bank of agriculture Loan has no significant effect on rural financing in Nigeria.

H_{02}: Microfinance institution Loan has no significant effect on rural financing in Nigeria.

Conceptual Clarification, Empirical Studies And Theoretical Framework

Concept of DFI.

Development finance is any form of finance, donation or credit geared towards achieving economic growth and development in an economic system (Ahmad, 2016). Also, DFI is defined as an institution promoted or assisted by Government mainly to provide development finance to one or more sectors or sub-sectors of the economy. CBN (2015) defines DFI as a specialised financial institution established with specific mandate to develop and promote key sectors of the economy considered to be of strategic importance to the overall socio-economic development objectives of the country. Thus, the institution distinguishes itself by a judicious balance as between commercial norms of operation, as adopted by any private financial institution, and developmental obligations.

Concept of Bank of Agriculture in Nigeria (BOA)

CBN (2014) defined BOA as a type of bank that lends money to farmers for longer periods of time and charges them less interest than other types of banks. Adesina (2012) defined BOA as bank that lends money to individuals, basically farmers, often over a long period of time and at low rates of interest. Ogunojemite, (2016) defined BOA as a credit bank expressly established in accordance with the provisions of law to assist agricultural development across the, particularly by granting loans for longer periods than usual with commercial banks.

BOA was designed for Nigerian farmers on the need to improve access to finance, and effectiveness of agricultural and rural development in view of the importance to be left to private sector finance institutions alone. It is a federal government owned development bank with mandate to provide low costs credit to small holder and commercial farmers, and small and medium rural enterprises.

Concept of Bank of Industry (BOI)

The bank was established with an authorized share capital of $400Million. Shareholders at creation are made of Ministry of Finance (59.4%), CBN (40.36%) and private sector take the balance. It was extracted from National Industrial Development Bank, The Nigerian Bank for Commerce and Industry and National Economic Reconstruction fund (CBN, 2012).

Concept of Rural Finance

Microfinance Gateway (2013) offers useful and broader definition of rural finance as the provision of financial services for rural farming and non-farming populations at all income levels. It mentioned that this specifically includes non-farm activities, and both rich and poor people, and, because it uses the broad term 'financial services' rather than 'credit' and does not mention any particular types of institutions.

According to the United Nations (1976): It is acomposite or comprehensive financial programme for rural development in which all relevant sectors such as agriculture, education, housing, health and employment are conceived as interlinking elements in a system having horizontal as well as vertical linkage in operationaland spatial terms. According to Aziz, (1999), rural finance is a holistic concept which is meant to finance inter-relatedness developmental variables which influence the quality of life in rural areas and should be a financial process that would involve the interaction of economic, social, political, cultural, technological and other situational factors.

Empirical Review

Massa (2011) evaluated the relationship between DFIs and economic growth. She made the use of Generalized Method of Moments (GMM) technique for panel data analyses, and examined the relationship between the investments of a selected sample of multilateral DFIs (EIB, EBRD and IFC) and economic growth for a sample of 101 countries in the period 1986-2009. The results suggested that such multilateral DFIs are playing a positive and significant role in promoting economic growth in recipient countries, with a stronger impact in lower-income countries than in higher-income countries. Consequently, the study only considered multilateral DFIs.

Demirgue-Kunt & Maksimovic (1999) carried out a firm level-based study to justify their assertion with respect to the relationship between finance and economic growth. The study showed that a developed financial system and legal system stimulates growth. This was achieved by using cross-sectional data drawn from thirty countries (developed and developing) for the period 1983 to 1991. They are of the view that an active stock market is an indication of a well-developed financial system. While the firms in a country with a high rate of compliance with the rules and regulations have access to the capital market, the developed financial system will ensure growth of these firms. Hence, finance stimulates growth.

Acha (2011a) investigated the role banks play in economic growth. He used bank deposits and bank credit to the private sector as variables for bank intermediation and real gross domestic product (RGDP) to proxy economic growth. The Regression of RGDP as dependent variable against bank deposit and credit confirmed that banks through their intermediation function contribute to economic growth in Nigeria.

Acha (2011b), studied whether banks through their financial intermediation activities (savings mobilization and lending) cause economic growth, which is the theme on which this study was based. Data on gross domestic product (GDP), credit to private sector (CPS) and total bank deposit (DPS) were obtained from Central Bank of Nigeria (CBN) statistical bulletin and used to compute savings ratio (SR) and credit ratio (CPR). A time frame of 1980-2008 was adopted. The hypotheses that no causal relationship exist between savings mobilization and credit on one hand and economic growth on the other were tested. The Granger Causality Test was used to test these hypotheses. It could not identify any significant causal relationship between banks' savings/credit and economic growth. The absence of such a relationship was conjectured to be due to the economies developmental stage characterized by infrastructural decay and the inefficient utilization of mobilized deposits.

Shittu (2012) examined the impact of financial intermediation on economic growth in Nigeria. Time series data from 1970 to 2010 were used and were gathered from the CBN publications. For the analysis, the unit root test and co integration test were done accordingly and the error correction model was estimated using the Engle-Granger technique. The study established that financial intermediation has a significant impact on economic growth in Nigeria.

Omodugo, Kalu and Anowor (2013) studied financial intermediation and private sector investment in Nigeria. They adopted private investment (PRIVET) as the regress and financial savings as a ratio of real gross domestic product (FS/RGDP), credit extended to private sector by deposit money banks (CEPS), prime lending rate (PLR) & real gross domestic product (RGDP) as the regressors. The study employed econometric method to construct a multiple regression model to analyze the long-run relationships among variables. The results showed that three out of the five coefficients were statistically significant at 5% level. CEPS and PLR conformed to the theoretically expected signs, while FS/RGDP, RGDP

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and DUM did not. Hetroscedasticity test carried out suggests that OLS assumption of constant variances over time was not violated.

Uremadu (2010) examined the effect of financial intermediation and government regulations on financial deepening and growth in Nigeria using time series data and OLS regression methodology. In particular, macroeconomic data covering 24 years were used to conduct his investigations and analysis. His findings show that government bank regulations proxy by total balances with the central bank lead financial deepening in Nigeria.

Agbada and Osuji, (2013) paper seeks to analyze empirically the trends in Financial Intermediation and Output (GDP) in Nigeria from the banking crises period beginning from 1981 to 2011. In doing so, the study used the endogenous components of financial intermediation such as Demand Deposits (DD), Time/Savings deposits (T/Sav) and Credits (Loans and Overdraft) as explanatory variables to predict the outcome of our dependent variable Output (GDP). Data were sourced from CBN statistical Bulletin, 2011 and regression estimation was carried out using IBM SPSS statistics 20. The findings suggests that though there exist a positive growth relationship between financial intermediation and output in Nigeria, there also exist elements of negative short-run growth relationship, especially for the periods that suffered financial shocks resulting from the global financial crisis and perhaps, numerous bank failures.

Iwedi and Igbanibo (2015) paper models the relationship between financial intermediation functions of banks and economic growth in Nigeria using data spanning (1970-2014). Credit to private sector (CPS), banks deposit liabilities (DLS), and money supply (MOS) were used as proxy for bank financial intermediation functions while gross domestic product represents economic growth. The econometric tools of the regression analysis and co integration test were used. The analysis revealed that no short run relationship existence between CPS, DLS and GDP in Nigeria. However, the analysis revealed a long run relationship between bank financial intermediation indicators and gross domestic product in Nigeria.

Theoretical Framework

The study adopts growth model by Adeoye (2006) and Nnanna (2004). They developed a model showing the relationship between financial sector development and economic growth in Nigeria. The chosen economic growth indicator is the Real Gross Domestic Product (RGDP) specified to depend on the financial indicators such as the ratio of M2 to GDP (M2 GDP), real interest rate (INTR) changes and the ratio of credit to private to GDP (CPGDP). Calderon and Liu (2003) noted that a higher M2 GDP ratio implies a larger financial sector and greater financial intermediary development. Real interest rate is included to fully and appreciably capture the effect of liberalized interest rate on economic growth. According to Phill (1970) a move from negative to positive real interest rates indicates progress in financial sector reform.

Research Methodology

This study used secondary data that was extracted from the CBN and NBS journals and publications for the period. Also, descriptive research design was adopted to describe the effect of DFIs finances on the rural development. The contribution of rural sectors of Nigeria to Gross Domestic Product (GDP) was used as an indicator of development in rural areas as measured by the study of Egbetunde (2012), loans by BOI, BOA to rural areas were also used as indicators of DFI finance in rural sector. Therefore, this paper makes use of the two (i.e. the sum of loans to rural areas by MFIs and loans to agriculture by BOA) in order to examine the effects of the two on the contribution to the GDP.

The model can be expressed in linear form as thus: $RGDPt = \alpha1 + \beta2BOALt + \beta3MFILt + \varepsilon t$

Where: RGDPt contribution of rural output to GDP for various years

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α1, intercept of the model
β- the slope coefficient
BOALt BOA Loan to rural areas for various years
BOILt BOI Loans to rural areas for various years

Data Analysis

Table 1 Descriptive statitics

Variables	Mean	Std dev	Observation
RCGD	40237.7200	20631.25401	10
BOAL	360.6800	87.79155	10
BOIL	91.3740	36.08473	10

Source: SPSS20.0 Regression result (2017)

The table above represents the descriptive statistics for the dependent (RCGD) and independent variables (BOAL, BOIL). The average amount of the rural contribution to GDP is #40237.72 billion and standard deviation of 20631.25. On BOAL, the result shows that average is #360.68billion and standard deviation of 87.79 and the average of BOIL is #91.7billion with standard deviation of 36.08.
In analyzing the robustness test which meant to check theMulti-collinearity of variables as tool for validity of the data where Tolerance Value and Variance Inflation Factor (VIF) are employed.

Table 2: Tolerance and VIF values

Variables	BOAL	BOIL
Tolerance	0.179	0.159
VIF	6.307	6.327

Source: SPSS20.0 Regression result (2017)

Table 2 above shows that the tolerance and VIF, the tolerance values for all the variables are less than one (1), this indicates that there is absent of Multi-collinearity and is because the closer the tolerance value to one, the greater the evidence that there no collinearity between the independent and dependent variables. As for the VIF value, all the variables values are less than 10 , the highest is 6.327 which is BOIL and BOAL having 6307. This indicates that there is absent of Multi-collinearity because the VIF values are less than ten (10). The rule is that VIF should not exceed 10 and this can only be possible where R square is up to 90%.

Table 5: Model summary of the study

Model	R	R^2	Adj R^2	F	Sig	DW
	.789^a	.622	.549	6.649	.033	0.454

Source: SPSS 20.0 Regression result (2017)

In table 4,5 above, the summary of the model shows that the model is fit and all explanatory variables have been carefully selected as this is confirmed by F-statistics of 6.65 which is significant at 5% as shown in the table above. R, the multiple coefficient of correlation, stood at 0.789 which is a strong correlation between the independent variables and the dependent variable. R^2, the coefficient of determination stood at 0.622 indicating that about 62.2% of the variations in the dependent variable can be explained by the independent variables, while the remaining 38% is covered by other DFI funds that are beyond the scope of the study.

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Also, the adjusted R square stood at 0.549 indicating that the independent variables in this study will still explain is 54.9% of the dependent variable even if other variables are added to the study Durbin Watson that meant to assess the serial correlation or autocorrelation which is 0.454 indicates that there is no serial correlation within the period of the study.

Table 4: DFI and Rural finance regression table

Variables	Beta	Std Error	t-value	p-value
Constant	43507.988	46852.676	.929	.451
BOAL	415.066	256.421	1.619	.247
BOIL	721.870	623.853	1.157	.367

Source: SPSS 20.0 Regression result (2017)

Table 4 shows the regression result and is explained that BOAL as measured by the loan provided by BOA to the rural people is positively related to rural financing and statistically insignificant at 5% level of significance. The Beta value shows 415.07 with a significance value 0.247. This coefficient being positive implies that an increase in BOAL will lead to an increase in the dependent variable. However, this effect is quite insignificant as the p-value (0.247) is greater than the benchmark of 0.05. This implies that we do not have enough statistical evidence to reject the null hypothesis.

Based on the analyses above, the study therefore, accepts the null hypothesis which states that there is no significant effect of BOA loan to rural financing.

In the same vein, BOIL as measured by the loan provided by BOI to the rural financing is positively related to rural financing and statistically insignificant at 5% level of significance. The Beta value shows 721.87 with a significance value 0.367. This also being positive implies that an increase in BOIL will lead to an increase in the dependent variable. However, this effect is also quite insignificant at 0.05 level of significance, since the p-value is greater than the bench mark of 0.05. This implies that we do not have enough statistical evidence to reject the null hypothesis.

The reason for this might be due to the inadequacy of the loan to fund the SMEs activities for the period.

Based on the foregoing analysis, the study accepts the null hypothesis which states that there is no significant effect of BOI loan and rural financing.

Conclusion

The findings of the study revealed that both BOA and BOI loans have insignificant positive effect on rural financing in Nigeria. The study therefore concludes that the regulatory and monitoring agency of CBN should appraise the performance of the BOA and BOI frequently to ensure they are performing up to task.

Recommendations

In line with the findings and conclusion of the study, the paper recommends that both BOA and BOI loans must continually be appraised by these DFIs. Also, loan beneficiaries should be thought how to properly manage the loans they get so they don't deviate from the intended purpose of taking the loans.

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