

## **Bank And Non-Bank Financial Institutions And The Development Of The Nigerian Economy**

**Ndugbu Michael O. (Phd)<sup>1</sup>, J.N Ojiegbe(Phd)<sup>2</sup> Barr. Lawrence Uzowuru N.<sup>3</sup> and Okere Peter A. (ACIB)<sup>4</sup>**

1. Department Of Banking and Finance, Imo State University, Owerri, Imo State, Nigeria

2. Department Of Banking and Finance, Imo State University, Owerri, Imo State, Nigeria

3. Department Of Banking and Finance, Imo State University, Owerri, Imo State, Nigeria

4. Department Of Banking and Finance, Imo State Polytechnic, Umuagwo, Owerri, Imo State, Nigeria

### **Abstract**

*The focus of this study was on the impact of bank and non-bank financial institutions on the growth and development of the Nigerian economy. In an attempt to achieve the objectives of the research, data for the period 1992 to 2012 were collected from the CBN publications. Hypotheses were also formulated. The data collected were analysed using the E-views econometric software under the ordinary least square (OLS) regression analysis. The study as confirmed by the result of the joint test revealed that the financial institutions play prominent role on the growth and development of the Nigerian economy. However, it was further revealed that individual contributions of the explanatory variables varied. For example, the Deposit Money Banks were revealed to have impacted very insignificantly to the growth and development of the Nigerian economy. This may not be unconnected with the unwholesome practices in the banking sector such as granting of loans/advances to "ghost" applicants, diversion of loans and advances granted, high incidence of moral hazards. In view of the above, it is recommended among others that government should come up with lending policies that will not only reduce diversions of bank loans/advances but will deter persons involved in such sharp practices. Such loans and advances which must be on long-term basis should be extended to needy investors in the real sector. Consumer loans and also loans and advances for commerce do not play prominent role in the growth and development of the economy and thus should be discouraged. The current and on-going reforms in the financial sector should be encouraged and maintained.*

**Keywords:** Loans And Advances, Moral Hazards, Adverse Selection,

### **Introduction**

Banks are financial institutions that engage in the acceptance of deposits and safe keeping of valuables (Jhingan,2005). On the other hand, Non-Bank financial institutions (NBFIs) are financial institutions that do not have full banking license and are not fully supervised by national or international banking regulatory agencies. NBFIs facilitate bank related financial services such as investments, risk pooling, contractual savings etc. These financial institutions (bank and non-bank) complement the activities of each other in the intermediation process in an economy. This intermediation process involves fund initialization from the surplus to the deficit units, which in turn facilitates the process of economic development.

An economy is said to be growing or developing when increases in its productive capacity later yield to more production of goods and services. It has been posited that the expected increase in economic output and a sustained increase in national income per head may not be realized if the financial sector is not sound, healthy, and virile (Nwankwo and Ejikeme, 2007). This is because a well-developed financial sector performs a very critical function such as enhancing the efficiency of financial intermediation. A well-developed financial sector also enhances investment by identifying and funding good business opportunities, mobilizing savings etc.

According to Oluyemi (1995) financial institutions are seen as the engine room for growth and development. Schumpeter (1934) affirmed this position where he identified the importance of bank and non-banking institutions in facilitating technological innovation. Several other scholars such as (Fry, 1988, King and Levine, 1993, McKinnon, 1973, Shaw, 1973) have also supported the above postulation about the significance of banks and non-banks to the growth of an economy.

In Nigeria, studies especially those of Adekunle et al (2013), Acha (2012), Okeh (2012), Adelokun (2010) have shown that the financial system is not fully developed and as such the bank and non bank institutions have not attained the standards expected from them in the process of economic development. Bank and non-bank institutions have not really met with the high demand for loans and advances. It has been argued that bank and non-bank financial institutions have contributed less than expected due to lack of access to funds

In view of the above problems, the study investigates the activities of banks and Non-bank financial institutions in relation to the growth and development of the Nigerian economy.

The purpose of this study is to investigate the impact of Bank and non-bank financial institutions on the growth and development of the Nigerian economy.

The specific objectives include to:

- Determine the impact of loans and advances of Deposit Money Banks on the growth and development of the Nigerian economy;
- Ascertain whether Finance Companies Domestic Credits have significant impact on the growth and development of the Nigerian economy;
- Investigate whether Insurance Companies' Total Investments have significant impact on the growth and development of the Nigerian economy;
- Ascertain the effect of Microfinance Bank Total Loans and advances on the growth and development of the Nigerian economy; and
- Make appropriate recommendations where necessary.

The study also formulated relevant hypotheses related to the various objectives of the study. These hypotheses, anchored on the objectives of the study, constitute a cornerstone of this study.

From the foregoing the following Hypotheses have been formulated.

- ❖ The activities of banks and non-bank financial institutions do not have significant impact on the growth and development of the Nigerian economy.
- ❖ Loans and advances of Deposit Money Banks do not impact significantly on the growth and development of the Nigerian economy.
- ❖ Finance Companies Domestic Credits have no significant impact on the level of growth and development of the Nigerian economy.
- ❖ Insurance Companies Total investments do not have significant influence on the growth and development of the Nigerian economy.
- ❖ There is no significant correlation between the total loans and advances of Microfinance banks and the level of growth and development of the Nigerian economy.

The study therefore examines the volume of loans, advances and other investments extended by the selected financial institutions for the period 1992 – 2012 towards the growth and development of the Nigerian economy. Accordingly, such variables as Deposit Money Banks Total Loans and Advances, microfinance banks, total loans and advances, finances companies, Domestic credit, Insurance companies, total investments were used to determine their relationship with the Real Gross Domestic Product in Nigeria.

## **Synopsis of Related Literature**

Economic growth has been a major objective of successive Nigerian governments. Ajayi (1995) noted that during the colonial era, the focus was on the provision of physical infrastructure in the belief, in line with the

prevailing economic ideas, that the facilities would induce the private investments that would produce the desired growth. After independence the government became more directly involved in promoting economic growth. The thinking was to mobilize needed domestic resources for investment in some preferred sectors. This brought banks/non-banks as financial intermediaries are expected to provide avenue for people to save or invest incomes not expended on consumption. It is from the savings accumulated that they are expected to extend credit facilities to entrepreneurs and other industrialists (Onoh, 2002). Many of the financial institutions that were in existence notably the banking institutions did not share in the vision of financing local enterprise because they were foreign owned. This gave rise to the establishment of indigenous financial institutions with a mandate to encourage local investors and hence foster economic growth. Unfortunately many of the financial institutions failed thus hindering their contribution to the economy (Ekezie, 1997). One primary reason that accounted for the high rate of failures of these institutions was that they operated in an unregulated financial environment.

## **Composition of The Nigerian Financial System**

The Nigerian financial system comprises the money and the capital markets. The categorisations according to Ikpefan (2012) are as follows:

- **Banking Institutions such as**

- The Central Bank of Nigeria
- The Nigeria Deposit Insurance Corporation (NDIC)
- Commercial banks (now Deposit money bank)
- Microfinance banks (formerly Community banks).
- Savings Institutions e.g. Federal Mortgage Bank of Nigeria.

- **Development Banks**

The nomenclature of development banks has changed from the former Nigeria Agricultural and Commerce Bank (NACB) to the following:

- Urban Development Bank ( UDB)
- Bank of Industry (BOI)
- Bank of Agriculture (formerly Nigerian Agricultural, Cooperative and Rural Development Bank (NACRDB)
- Federal Mortgage bank

- **Non-banking Institutions**

- Nigeria Social Insurance Trust Fund (NSITF) formerly National Provident Fund – NPF
- Hire purchase and finance companies
- Insurance companies
- Investment companies
- Co-operative and credit societies

The capital market consists of the following:

- The Securities and Exchange Commission (SEC)
- The Nigerian Stock Exchange

The above named financial institutions enable capital formation to take place in the financial system. At the apex of the Nigerian financial system we have the following authorities

- Federal Ministry of Finance
- Central Bank of Nigeria
- Nigeria Deposit Insurance Corporation
- Securities and Exchange Commission
- Federal Mortgage bank
- National Insurance Commission
- National Pensions Commission

The Nigerian financial institutions can also be classified into three levels (Ikpefan, 2012):

- First level: refers to the banking institutions
- Second level: refers to the development banks or the thrift institutions.
- Third level: These are other financial intermediaries such as insurance companies, finance companies, investment companies. They are non-depository financial institutions.

## **Non-Bank Financial Institution and Economic Development**

The primary channel through which Non-bank financial institutions assist in economic development is the intermediation process (Acha, 2012). They mobilize funds of various means open to them and make same available for investment.

Finance companies for instance make available funds raised through owners' equity contribution and borrowings from other financial institutions, individuals and companies to investors.

The role insurance companies play in economic development is strikingly outstanding. While the deposit money banks mobilize deposits from customers in the form of savings, current and fixed deposits insurance companies on the other hand aggregate the premium paid by policy holders (Esezobor, 2003).

Apart from being a veritable source of long-term funds, the insurance companies possess an unquantifiable psychological assurance, allaying the risk and loss anxiety of investors. This assurance kindles local entrepreneurial spirit and encourages foreign direct investment. Also by indemnifying policy holders in case of actual loss, insurance companies ensure production continuity and the maintenance of established consumption patterns and hence improvement of existing living standards (Pritchett, et al, 1996, Isimoya, 2003).

In addition to mobilising their own funds, some NBFIs notably development finance institutions and primary mortgage institutions obtain significant grants and loans from the government and international financial institution for onward lending. This according to Onoh (2004) aptly articulates the investment funds generating abilities of NBFIs.

Equipment financing and industrial infrastructural development are also in the domain of development finance institutions. From the funds obtained in the form of loans or grants from international financial institutions such as World Bank, these development finance institutions fund long-term investments. They further contribute to economic progress by providing advisory services, technical and managerial expertise to such projects (Okereke *et al*, 2009).

The NBFIs like Bureaux de change also helps in economic development through investment funding. Bureaux de change helps and encourages capital inflow. By offering higher rates than the official rate of exchange, citizens working abroad are thus encouraged to remit monies home. Since transactions in bureaux de change are carried out anonymously, citizen's resident abroad who wish to bring foreign exchange without passing through the official channels are given avenues to do so. The increased inflow of foreign currency which this engenders improves the country's Gross National Product (GNP) and by extension general economic well-being is enhanced (Aghogho' vbia, 2006).

Housing is one of man's basic needs and its availability is a measure of his economic well-being. In the light of this, the role played by primary mortgage institutions in housing development is of significant economic importance. Whether they are disbursing funds they generated or those from the National Housing Fund, their underlying developmental impact is in making houses available and affordable to Nigerians (Sanusi, 2003) Another area where NBFIs have played a vital developmental role is in the reduction of money stock outside the banking system. Akpan, (1998), rightly pointed out that due to the existence of a grossly underbanked rural economy monetary policy measures instituted by the CBN are ineffective. Interestingly the introduction of the microfinance banks has helped to mop up substantial rural deposits.

Provision of a secondary market for trading in government securities by discount houses through their discount activities has also immensely contributed to the effectiveness of monetary policy especially Open Market Operations (OMO) (Adelakun, 2010). The presence of an avenue to discount these securities encourages banks and other investors to buy them and by so doing government is provided with development funds on one hand and open market operations became more effective as a monetary policy instrument on the other hand. Increased activity has been recorded in the market since the advent of the discount houses in 1993. This has improved financial structures and further deepened the financial system (Oke, 1993; Oresotu, 1993).

Finally it is apt to also state that the NBFIs contribute to the reduction in unemployment rate experienced in the country (Acha, 2012). Apart from those directly employed to work for them, there is a teaming number of unemployed graduates, artisans, farmers etc who established one business or the other from credits made available by the NBFIs. Their funding of small and medium scale enterprises is also a boost to employment as these enterprises are known to be the highest employers of labour in our economy.

At this stage it is very imperative that we have an empirical exposition on some related literature. In other words the study will at this juncture attempt to identify with some empirical findings or contributions related to the research topic under investigation.

Adeoye (2006) and Nnanna (2004) 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  $M_2$  to GDP ( $M_2$  GDP), real interest rate (INTR) changes and the ratio of credit to private to GDP (CPGDP). Calderon and Liu (2003) noted that a higher  $M_2$  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.

To further show the relationship or association between financial development and economic growth the model developed by Erdal et al (2007), a slight modification of the growth model of Rata Ram (1999) will be considered. The secondary data for the variables for the period 1980 to 2008 were sourced from CBN, Nigeria's National Bureau for Statistics. The test then showed that there was a strong relationship between economic growth and financial development. It therefore follows that from the empirical result financial sector development promotes economic growth in Nigeria.

Aurangzeb (2012) in his own study tried to find out the impact of deposit money banks on the economic growth of Pakistan. Secondary data were sourced from the state bank of Pakistan and other official publication. The period under review was from 2001 to 2010. The variables for the survey were six namely: Gross Domestic Product, Deposits, Investments, Advances, Profitability and Interest Earning.

Dele (2007) investigated the banking reform in Nigeria by using the data of 40 commercial and merchant banks. The variables used were lending, interest rate, and foreign exchange policy. The study used the descriptive statistics to test the hypothesis. The result indicated that recapitalization has shown significance to reform the banking services and to the overall growth of the Nigerian economy.

Kayode *et al* (2010) in their contribution wanted to know the effort of bank lending and economic growth on the manufacturing output in Nigeria. Time series data for a period of 36 years (1973 to 2009) were used and the techniques used for the analysis were the co-integration and vector error correction model (VECM). It was discovered that the bank rate of lending loan significantly affect manufacturing output in Nigeria. This view point is correct because interest rate has an indirect relationship with the volume of production in manufacturing firms. As the interest rate of loans goes up, manufacturers will access little or no loan hence volume of production goes down and invariably economic growth will retard. It is however the view of the researcher that such variable as foreign exchange rate policy ought to have been included. This is because the foreign exchange rate policy in place within the period under review will to a great extent influence the manufacturing activities and hence economic growth.

Khatib *et al* (1999) had to investigate the relationship between commercial banking performance and economic growth in Qatar. Variables such as bank profit, GDP, government revenues, government expenditures, foreign interest rate were used and also the regression analysis model and (OLS) techniques were employed. The data used were for the period 1986 to 1997. The result showed that the variables are highly effective and responsible for economic growth.

In his own study Koivu (2002) investigated the relationship between financial sector and economic growth by using empirical methods and data variables. The variables were INT = Difference between lending and deposit interest rates as percentage points; CREIDT = Ratio of bank credit to private sector to GDP; RI = Reform Index; ANF = Annual consumer price index as percentages. GDP growth = Real GDP growth rate. He concluded that these variables had positive relationship with the growth of the Ghanaian economy

Fadare (2004) empirically identified the effects of banking sector reforms on economic growth in Nigeria by using the data 1999-2009. Variables used for the study are interest rate margins, parallel market premiums, total banking sector credit to the private sector, inflation rate, inflation rate lagged by one year, size of banking sector capital and cash reserve ratios. Results indicate that the relationship between economic growth and other exogenous variables of interest rate margin, parallel market premiums, total banking sector credit to the private sector, inflation rate and cash reserve ratio was negative and insignificant.

## **Methods and Materials**

Whereas the interest in this study is to find out whether a long-run relationship exists between banks, non-banks and growth of the Nigerian economy, regression analysis based on the classical linear regression model otherwise known as Ordinary Least Square (OLS) technique is chosen by the researcher. OLS will be used on the data to test the type of relationship between variables whether positive or negative and to find out if the variables are significant or not.

In this study, we have focused on secondary type of data; all data are collected from the different official publication of CBN, federal office of statistics etc.

## **Model Specification**

In this study, the variable used to measure the growth of the Nigerian economy is the Real Gross Domestic Product for the years under review (1992 – 2012).

Used to represent banking institutions in this study are the Deposit Money Banks (DMBs) and Microfinance Banks (MFBs). Also used as proxy for the DMBs is total loans and advances to the different sectors of the economy represented by DMBTLA (Deposit Money Banks Total Loans and Advances). As proxy for the Microfinance banks, the total loans and advances was also used represented by MFBTLA.

For the non-bank institution, finance and insurance companies were used. Used as proxy for Finance companies is the Domestic credit of finance houses represented by FCDC (Finance Companies Domestic Credit) for the years under review (1992 – 2012). Also used as proxy for Insurance companies is the total investments of insurance companies for the years under review (1992 – 2012) represented by (ICTI) ie Insurance Companies Total Investments.

Following Adekunle *et al* (2013) who studied the impact of financial sector development on the Nigerian Economic Growth where they developed a model showing the relationship between the financial sector and economic growth in Nigeria using Real Gross Domestic Product and the economic growth indicator and the ratio of M<sub>2</sub> (Money Supply) to GDP (M<sub>2</sub> GDP), the ratio of Credit to Private to GDP (CPGDP) and real interest rate changes (INTR), we now specify our model using the selected banks and non-banks individual contributions to economic growth in the area of loans, advances, investments, and domestic credit.

The functional form the model is specified thus:

$$RGDP = f(DMBTLA, MFBTLA, FCDC, ICTI)$$

**Where:**

- F = Functional Notation
- RGDP = Real Gross Domestic Product;
- DMBTLA = Deposit Money Bank Total Loans and Advances;
- MFBTLA = Microfinance Bank Total Loans and Advances;
- FCDC = Finance Companies Domestic Credit;
- ICTI = Insurance Companies Total Investment;

and the structural form is expressed thus:

$$RGDP = a_0 + a_1DMBTLA + a_2MFBTLA + a_3FCDC + a_4ICTI + U$$

**Where:**

- a<sub>0</sub> = Constant term
- a<sub>1</sub> – a<sub>4</sub> = Parameters to be estimated
- U = Stochastic variable or error term incorporating other factors that are not considered in this model.

A Priori expectation can be expressed mathematically as a<sub>1</sub>, a<sub>2</sub>, a<sub>3</sub>, a<sub>4</sub>, >0

Having stated the above, this study will further use the Econometric views (E-views 6.5) software in running the regression. Thereafter the following tests will be carried out.

**Unit Root Tests:**

**Cointegration Tests:**

**Granger Causality Test:**

**Data Estimation and Analysis**

This section provides in detail the analysis of data used in the study and interpretation of the empirical results.

**Unit Root Test**

Non – stationary data produces spurious regression hence the result may be misleading. Therefore it is cognizant to establish the stationarity of data. The unit root test is therefore carried out using the Augmented Dickey fuller (ADF) test in order to determine whether the data set is stationary and the order of integration.

**Table 4.2:** Summary of Unit Root Test Results

Variables	ADF 2 <sup>nd</sup> Diff	Mackinnon critical value at 5%	Order of integration
DMBTLA	-3.396852	-3.098896	1(2)
FCDC	-5.095630	-3.081002	1(2)
ICTI	-3.80091	-3.052169	1(2)
MFBTLA	-5.931347	-3.081002	1(2)

Source: E-views 6.5

From the table above, all the variables are stationary at second different because their respective ADF statistic are greater than the Mackinnon critical value of 5%. It also shows that the variables are co-integrated in the same order.

**Johanson Cointegration Test**

**Table 4.3 Cointegration Rank Test**

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.995592	174.2159	69.81889	0.0000
At most 1 *	0.845255	76.57983	47.85613	0.0000
At most 2 *	0.794857	42.99229	29.79707	0.0009
At most 3	0.551099	15.47946	14.49471	0.0017
At most 4	0.003456	3.062323	2.841466	0.0028

Trace test indicates 3 cointegrating eqn(s) at the 0.05 level

\* denotes rejection of the hypothesis at the 0.05 level

\*\*MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.995592	97.63609	33.87687	0.0000
At most 1 *	0.845255	33.58755	27.58434	0.0075
At most 2 *	0.794857	28.51283	21.13162	0.0038
At most 3 *	0.551099	14.41714	14.26460	0.0473
At most 4	0.003456	4.062323	3.841466	0.0028

**Table 4.4 Granger causality test**

Pairwise Granger Causality Tests

Date: 11/28/14 Time: 12:25

Sample: 1992 2012

Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
DMBTLA does not Granger Cause RGDP	19	1.33539	0.2946
RGDP does not Granger Cause DMBTLA		22.6735	4.E-05
FCDC does not Granger Cause RGDP	19	12.6434	0.0007
RGDP does not Granger Cause FCDC		0.32647	0.7268
ICTI does not Granger Cause RGDP	18	0.43981	0.6534
RGDP does not Granger Cause ICTI		3.80116	0.0501
MFBTLA does not Granger Cause RGDP	19	4.11825	0.0392
RGDP does not Granger Cause MFBTLA		17.7036	0.0001
FCDC does not Granger Cause DMBTLA	19	0.79022	0.4730
DMBTLA does not Granger Cause FCDC		2.65631	0.1052
ICTI does not Granger Cause DMBTLA	18	65.1251	2.E-07
DMBTLA does not Granger Cause ICTI		1.42139	0.2765
MFBTLA does not Granger Cause DMBTLA	19	13.9801	0.0005
DMBTLA does not Granger Cause MFBTLA		3.56694	0.0560
ICTI does not Granger Cause FCDC	18	30.0170	1.E-05
FCDC does not Granger Cause ICTI		4.56304	0.0315
MFBTLA does not Granger Cause FCDC	19	0.16509	0.8494
FCDC does not Granger Cause MFBTLA		4.38593	0.0332
MFBTLA does not Granger Cause ICTI	18	7.35049	0.0073
ICTI does not Granger Cause MFBTLA		11.4327	0.0014

After applying the causality test, we found a bi-directional causal relationship of Microfinance bank total loans and Advances (MFBTLA) and Insurance companies total investments (ICTI). On the other hand, we found a uni-directional causal relationship of FCDC and RGDP, RGDP and MFBTLA and also MFBTLA and DMBTLA.

**Table 4.5**

Dependent Variable: RGDP  
 Method: Least Squares  
 Date: 11/28/14 Time: 12:12  
 Sample (adjusted): 1992 2012  
 Included observations: 20 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DMBTLA	-2.069172	1.638699	-1.262692	0.2260
FCDC	17.21131	118.8475	0.144818	0.8868
ICTI	63.32331	20.62990	3.069492	0.0078
MFBTLA	394.8036	158.8867	2.484812	0.0253
C	2674684.	1060023.	2.523233	0.0234
R-squared	0.933885	Mean dependent var		12010459
Adjusted R-squared	0.916254	S.D. dependent var		11062538
S.E. of regression	3201369.	Akaike info criterion		33.00837
Sum squared resid	1.54E+14	Schwarz criterion		33.25731
Log likelihood	-325.0837	Hannan-Quinn criter.		33.05697
F-statistic	52.96940	Durbin-Watson stat		1.886083
Prob(F-statistic)	0.000000			

The value of Durbin Watson (DW) statistic in the model is 1.886 which is nearer to 2. This indicates that there is no significant auto correlation in the model and the regression model assumes that the error deviations are uncorrelated.

The coefficient of Determination ( $R^2$ ) is 0.934. This represents the correlation between the dependent and independent variables. This value (0.934) means that the independent variables in the model can predict 93.4% of the variance in the dependent variable (RGDP).

**Model Estimation**

Our mode estimation is

$$RGDP = a_0 + a_1 DMBTLA + a_2 MFBTLA + a_3 FCDC + a_4 ICTC$$

Where:

$$RGDP = 2674\ 684 - 2.069172DMBTLA + 394.8036 MFBTLA + 17.21131 FCDC + 63.3233ICTI$$

**Discussion of Results**

The results of the model show that the time series properties of the variables in the model, the Augmented Dickey Fuller (ADF) Unit toot test were conducted. The ADF revealed that all variables namely: Deposit Money Bank Total loans and advances (DMBTLA), finance companies domestic credit (FCDC) insurance company’s total investment (ICTI) and microfinance bank total loans and advances (MFBTLA) were stationary at second difference.

The model equation is thus specific as below:

$$RGDP - 2674684 - 2.069172 DMBTLA + 394.8036MFBTLA + 17.21131 FCDC + 63.32331 ICTI$$

From the above model equation, the Deposit Money banks' total loans and advances have negative relationship with the of Real Gross Domestic Product while Microfinance banks' total loans and advances, Finance companies Domestic credit and Insurance company's total investments had positive relationship with the real GDP

A look at the negative relationship of the deposit money bank total loans and advances and the Real Gross Domestic Product shows that it is not in tune with our apriori expectation. A further look at Hypotheses two ( $H_0$ ) shows that the  $T_{cal} < t_{tab}$  which led to the acceptance of the Null Hypothesis that deposit money banks loans and advances do not have significant impact on the growth and development of the Nigerian economy. This position is not in agreement with the findings of Aurangzeb (2012) where they stated that deposit money banks activities in Pakistan have significant impact on the economy. Kayode, et al (2010) and Oluyemi (1995) also affirmed that the rate of bank lending significantly affects economic growth and development in Nigeria. It is however the view of the researcher that the effects of sharp practices in the Nigerian banking industry may not be unconnected with this type of result. The volume of loans and advances claimed to have been released may not after all get to the real sector. Again the effect of moral hazards in Nigeria is alarming. Most loans and advances by the banks are either diverted or misappropriated.

Also under Hypothesis three ( $H_0$ ), the Finance companies domestic credits have been identified as having not impacted significantly on the growth and development of the Nigerian economy. The reasons for this result may not be far fetched from those in the Deposit Money bank.

Hypothesis four ( $H_0$ ) states that Insurance companies total investments do not have significant influence on the growth and development of the Nigerian economy. The result of our tests revealed that this Null Hypothesis was rejected implying that the total investments by the insurance companies impacts significantly on the Nigerian economy. This result is in line with the views of Damar et al (2006), Richard Sylla (2005).

Again, Hypothesis five states that there is no significant correlation between the loans and advances of Microfinance banks and the level of growth and development of the Nigerian economy. Again a look at the result of our test revealed that we rejected this Null Hypothesis and accepted the alternate. This further implies that the total investments by microfinance banks have actually impacted very significantly on the growth and development of the Nigerian economy. This result is a confirmation of the findings of Adeoye (2006) and Nnanna (2004).

### **Summary of The Findings**

- The Deposit Money bank Total loans and advances, microfinance bank total loans and advances, insurance companies total investments and finance companies domestic credits jointly have significant impact on the growth and development of the Nigerian economy.
- The individual tests of significance carried out using the t-test showed that:
  - The Deposit Money banks' loans and advances had a negative and insignificant impact on the growth and development of the Nigerian economy. This study identified the following as possible causes. They include diversion and misappropriation of loans granted, high incidence of moral hazards, granting of loans to "ghost" applicants, poor or weak credit policies, adverse selection by credit officers among others
  - The Finance companies Domestic credits do not exert significant impact on the growth and development of the Nigerian economy. The reasons for this according to the researcher may not be far-fetched from the reasons for poor impact of deposit money banks on the Nigerian economy.
  - The insurance companies total investments have significant impact on the growth and development of the Nigerian economy. This implies that virtually all investments by the insurance sector had been very judiciously and efficiently handled.

- The loans and advances by microfinance banks have significant impact on the growth and development of the Nigerian economy. This result shows that microfinance banks being rural based had actually extended loans and advances to needy local entrepreneurs for developmental purposes.

## Conclusion

This study started by identifying the various bank and non-bank financial institution operating in Nigeria. It went further to highlight the roles they play in economic development.

Also the relationship between bank and non-bank financial institution and economic development in Nigeria was investigated. The empirical results showed that there is a substantial positive relationship between bank and non-bank financial institution and economic development in Nigeria, that is to say, that the activities of bank and non-bank financial institution promote economic growth and development in Nigeria.

Based on our findings above, the study concludes as follows:

- That the entire explanatory variables jointly met the a priori expectation, i.e. the activities of bank and non-bank financial institution substantially influence the growth and development of Nigerian economy.
- That the lending policies should be reviewed especially in the banking sector. This is because activities in the deposit money banks should expectedly exert more influence on the growth and development of an economy.

## Recommendations

In view of the findings of this research work, the following recommendations are hereby offered:

- The CBN should review its lending policies with a view to making them more pro-active. This means that more attention should be given to long-term loans and advances for developmental purposes. Again consumer loans should be de-emphasised.
- The CBN should organise a clearing system for microfinance banks. This will enable them play more active role in the money market and not continue to operate at the mercy of their correspondent deposit money banks. Some of the correspondent banks are known to slow down the microfinance banks with harsh conditionalities.
- The recent reforms in the financial sector should be encouraged and made more rewarding.
- Finance companies should make efforts in enlightening the public on their financial activities and create awareness on their relevance. They should also endeavour to diversify their products and thus meet the demands of the present state of economy.
- A closer examination of the operations of insurance companies is advocated. This will make them to be more responsive to their duties.

## Reference

- Acha, I.A. (2012) "Non-bank Financial Institutions and Economic Development in Nigeria", Uyo, Scientific and Academic Printing.
- Adekunle, O.A. *et al* (2013). "Impact of Financial Sector Development on the Nigerian Economic Growth", *American Journal of Business and Management*. Vol. 2, No. 4.
- Adelakun, O.J. (2010) "Financial Sector Development and Economic Growth in Nigeria", *International Journal of Economic Development, Research and Investment*, Vol. 1, No. 1.
- Adeoye, B.W. (2007). "Financial Sector Development and Economic Growth: The Nigerian Experience, A paper presented at the 50<sup>th</sup> Annual Conference of the Nigerian Economic Society.

- Ajayi, C.O. (1995). "Financial and Sources of Growth", *Journal of Financial Economics* Vol. 1, No. 3.
- Akpan, I. (1999). "Rural Savings Mobilisation in Nigeria: The Banking Experience", *Journal of Social Sciences*.
- Aurangzeb, F. (2012) "Contributions of Banking Sector in Economic Growth: A Case of Pakistan", *Economic and Finance Review*, Vol. 2(b).
- Ayodele, F. and Folokun, B. (2005). "Structural Reforms in the Banking Sector in Nigeria: An Overview", *Economic and Financial Review*, Vol. 36, No. 2.
- Dammar, R. et al (2006). "Banking Crisis: Causes, Early Warning Signkal and Resolution", *NDIC Quarterly*, 12(1).
- Dele, C.A. (2007). Principles of Finance, Lagos, Page Publishers.
- Ekezie, M.U. (1997). "Financial Structure and Economic Growth in Nigeria", *Nigerian Journal of Securities and Finance*, Vol. 13, No. 1.
- Esezorbor, E.A. (2003). The Peculiarities and Challenges for the Surveillance of Non-bank Financial Institution in Nigeria, No. 3.
- Fadare, S.O. (2004). "Recent Banking Reforms and Economic Growth in Nigeria", *Middle Eastern Finance and Economics*.
- Fry, M.J. (1988); *Money, Interest and Banking in Economic Development*, London, John Hopkins Press.
- Isimoya, O.A. (2003). Risk Management and Issuance Applications, 2<sup>nd</sup> ed., Lagos, Mathouse Press Ltd.
- Jhingan, M.L. (2005), *Economics of Development and Planning*, 38<sup>th</sup> ed. New Delhi, Vikas Publishing Ltd.
- Kayode, A. et al (2010). "Implementation of Indirect Monetary Policy in Nigeria: problems and Prospects", *CBN Economic and Financial Review*, 31 (3).
- Khatib, A. et al (2010) "Development of Microfinance"; Asian Development Bank Publication.
- King, R.G. and Levine R. (1993); "Financial Intermediation and Economics of Development". *Centre for Economic Policy Research*.
- Mckinnon, R. (1973), *Money and Capital in Economic Development*, Washington D.C, Bookings Institution.
- Nnanna, O.J. (2005). "Beyond Bank Consolidation: The Impact on Society". CBN 4<sup>th</sup> Monetary Policy Conference.
- Nwankwo, D and Ejikeme, M. (2009), "Economic Development and Financial Institutions", *Journal of Economic and Management issue*.
- Nwankwo, G.O. (1991). The Nigerian Financial System, London, McMillan Press Ltd.
- Okeh, M.O. (2012) "Impact of Capital Market Reforms on Economic Growth: The Nigerian Experience", *Austrian Journal of Business and Management Research*, Vol. 2, No. 2.
- Okereke, et al (2009). Money and the Nigerian Financial System, Owerri, Jeso International.
- Onoh, J.K. (2004). The Dynamics of Money Banking and Finance in Nigeria: An Emerging Market, Aba, Astra Meridian Publishers.
- Oresotu, C.N. (1993). "Financial Sector Development and Economic Growth in Nigeria: An Empirical Investigation, CBN: *Economic and Financial Review*, 42 (3).
- Phill, A.C. (1970). "Rural Savings Mobilization in Nigeria: The Banking Experience", *Journal of Social Issues*, 1 (1).
- Pritchett, P.S. et al (1996). Management and Insurance, 7th ed., Los Angeles, West Publishing Co.
- Rata, R. (1999) Delivering Microfinance in Developing Countries: Controversies and Policies and Perspectives", *Policy Studies Journal*, 29(2), "Towards best practices for microfinance Institutional arrangement in African Rural Areas", *International Journal of Social Economics*, 31 (1).
- Richard, Silla (2005). Money Interest Rate and Banking Economic Development, 2nd ed., Baltimore, Hopkia University Press.

Sanusi, L.S. (2012). “Banking Reform and its Impact on the Nigerian Economy” Lecture Delivered at the University of Warwick’s Economic Summit, UK.

Schumpeter, J.A. (1934) *The Theory of Economic Development*, Translated by Redvers Opie, Cambridge M.A: Harvard University Press.

Shaw, E.S. (1973), *Financial Deepening in Economic Development*, New York, Oxford University Press.