

FINANCIAL INCLUSION AND SMALL AND MEDIUM ENTERPRISES CONTRIBUTION TO SUSTAINABLE ECONOMIC GROWTH IN NIGERIA

Abdullahi, Ibrahim Bello and Fakunmoju, Segun Kamoru

Department of Finance, University of Ilorin, Ilorin, Nigeria

ABSTRACT

Inclusive financial arrangement is becoming a global economies policy as it has been perceived as a strategic tool for poverty alleviation and improvement of Small and Medium Enterprises (SMEs) output to economic growth sustainability. Financial exclusion of SMEs investors had led to high level of SMEs failure and poverty in Nigeria. This study examines the effect of financial inclusion on SMEs contribution to sustainable economic growth between 1970 and 2015. The data were subjected to Ordinary Least Squares technique. The study revealed that financial inclusions have positive effect but do not significantly affect sustainable economic growth at 5%. The study concludes that there is high propensity for SMEs output to boost sustainable growth if all the financial inclusion indicators are well put in place by the monetary authorities. It was recommended that sustainable growth and development can be achieved in Nigeria if SMEs operators have access to loans facilities.

Keywords: Financial Inclusion, SMEs Contribution, Sustainable Economic Growth, Sustainability and Nigerian Economy.

INTRODUCTION

In the modern economy, inclusive financial structure of Small and Medium Scale Enterprises (SMEs) has been a universal driver tool in which many developed emerging and developing economies are employing in order to achieve SMEs inclusive growth, poverty alleviation and sustainable economic growth and development. Christie and Crompton (2002) recognized that small business contribute 70 percent to gross domestic product in which continuous maintenance of SMEs contribution to economic activities will enhance sustainable economic growth and development in developing countries. Ogbuanu, Kabuoh and Okwu (2014) established that SMEs contribute largest percentage of businesses all over the world and play important role in achieving sustainable economic growth and development through creation of employment, provision of goods and services, improving standard of living and SMEs continuous contribution to economic activities.

In line with this, Panitchpakdi (2006) and Ogbuanu, Kabuoh and Okwu (2014) viewed SMEs financing as a source of employment, competition, economic dynamism, and innovation which stimulate sustainable economic growth and development. Chibba (2009) and Sanusi (2010) asserted that SMEs finance inclusion predicted as a pre-condition to achieve poverty alleviation and sustainable economic growth and development. Oyewo and Badejo (2014) viewed sustainable development as the judicious utilization of resources to meet the present and future economic, social and environmental needs of the public. Micheal (2016) pointed out that sustainable economic development pursues to meet the economic needs of the present generation without deteriorating the ability of future generations to meet their own economic need.

SMEs contribution to sustainable economic growth and development is determine by access to financial and infrastructural facilities by the SMEs investors in different sectors. These facilities should be used in such a manner that their future use to sustain the economy is not jeopardized. Considering the growth and development SMEs sectors had brought to the developed and emerging economies, it is desirable to tackle the problems currently bedevilling the SMEs sectors in Nigeria, in order to position it for inclusive sustainable economic growth and development. One of the major challenges in the SMEs sector is access to finance -a problem financial inclusion seeks to address (Babajide, Adegboye & Omankhanlen, 2015; Nwankwo, 2014; Sanusi, 2010). This indicates that increase in financial exclusion of SMEs sectors has led to poor economic and deterioration of sustainable economic growth and development in Nigeria.

The financial inclusion is one of the Central Bank of Nigeria (CBN) driver policy to improve inclusion of SMEs investors in urban and rural segments. The barriers to financial inclusion in Nigeria can be view from supply-driven factors such as geographic distances and high transaction costs for banks to operate in remote or rural locations and demand-driven factors such as lack of financial understanding or erratic cash flows and low incomes earners. The CBN and other Nigeria financial system stakeholders had implemented National Financial Inclusion Strategy (NFIS) to reduce the number of Nigerian SMEs investors that are excluded from financial services (CBN, 2012). As observed by Okafor (2012) that financial inclusion speed up the flow of credit to small scale enterprises, sustained small scale enterprises growth and economic output, enhance income generation to rural segment and employment generation in any economy of the world.

Nwankwo and Nwankwo (2014) also established that sustainable financial inclusion to rural SMEs investors in Nigeria remains the way out for economic growth and that economic growth sustainability cannot be achieve without proper implementation of financial inclusion in Nigeria. Migap, Okwanya and Ojeka (2015) noted that sustainable economic growth and development

can only be achieved in Nigeria if all the weaker sectors of the economy, including agriculture, productive sector, financial sector and small scale industries are nurtured, well financed and regulated, supportive and brought on par with other sectors. As noted by Khan (2011) that for a nation to achieve inclusion of SMEs output in the sustainable economic growth, financial inclusion programme should be a compulsory policies and strategies that must be accepted, adopted and implemented by various stakeholders in the financial systems.

The study on Enhancing Financial Innovation and Access (2010) cited in Kama and Adigun (2013) revealed that only 30.7 million out of the 85 million Nigerians above the age of eighteen have access to formal financial services, leaving out over 54.3 million served by the informal financial institutions or totally unbanked. This has reduced the level of economic activities contribution by SMEs output and increase excluded segment in Nigeria, since the financial excluded segments are more than the financial included segments. Nwankwo and Nwankwo (2014) established that 62% of a adults, nearly 2.2 billion, living in Asia, Africa, Latin Africa and Middle East are un-served and more than 800 million live on less than \$5 per day, this have negatively affect and reduced SMEs investors contribution to economic activities.

Paul (2013) asserted that Nigeria as a nation is not excluded with a large population of financially excluded put at 46.3% compare with Kenya and South Africa with 39.5% and 26.89%. As established by Mbutor and Uba (2013) that credit penetration as an index of financial inclusion is worse in Nigeria compared to other developing countries. Mbutor and Uba (2013) also revealed that only 2% have access to formal financial services which is very far cry from 32% in South Africa. Comparatively, Nigeria has a formal payments penetration of 21.6 per cent that is lower than the level of 46% in both South Africa and Kenya and also in terms of access to savings products, Nigeria has 461 savings accounts per 1000 and this poorly compares with 2,063 savings accounts per 1000 in Malaysia (Mbutor & Uba, 2013). These problems of large population of financially excluded segment, poor credit penetration and formal payment penetration denied the accessibility of financial resources by SMEs investors which in turn reduced SMEs output to economic activities and leads to non-sustainability of economic growth in Nigeria. This indicate that the World Bank (2013) ranked that Nigeria as one of the fastest growing economies of the world with GDP growth rates of 7.8% (2010), 7.4% (2011), 7.5% (2012), 7.6% (2013), 6.3% (2014) and 2.7% (2015) were majorly from the exportation and importation of crude oil while other productive sectors and SMEs industries contribute very petite to the Nigeria economic activities and growth. This signpost that economic growth sustainability cannot be achieve in Nigeria, if local SMEs industries were not totally included in the financial inclusion programmes and properly finance.

Although past studies have empirically established the relationship between economic natural resources and economic sustainable growth in Mongolia; Environment, energy and sustainable economic growth in China; Financial inclusion and development of Indian economy; Entrepreneurship for sustainable economic growth in Nigeria; Sustainability of financial inclusion and rural dwellers in Nigeria; Stock market and sustainable economic growth in Nigeria; and Agricultural sector financial inclusion and Nigeria sustainable economic development. These studies employed Ordinary Least Square Method of analysis and revealed that infrastructure investment, optimize investment efficiency, continuous energy utilization, environmental protection, mobilization and sound financial resources circulation in both rural and urban segments for entrepreneur or SMEs investors, sustainability of financial inclusion in rural areas and financial inclusion in the agricultural sector will boost sustainable economic growth of any nation in the world (Gupta, Grace-Li & Jiangyan-Yu, 2015; Hui &

Danxiang, 2011; Joseph & Varghese, 2014; Micheal, 2016; Nwankwo & Nwankwo, 2014; Owusu, 2016; Oyelola, Ajiboshin, Raimi, Raheem & Igwe, 2011).

Several empirical studies on financial inclusion strategies and monetary policy, financial inclusion and Nigeria economic growth, financial development and economic growth of SMEs economic activities, bank credit and Nigeria rural development have also shown that proper implementation of financial inclusion improved economic activities, enhance implementation of monetary policies and increase SMEs economic activities (Akinlo & Egbetunde, 2010; Babajide, Adegboyega & Omankhanlen, 2015; Egbetunde, 2012; Goodland, Onumah & Amadi, 2012; Khan, 2011; Martinez, 2011; Marktanner, 2012; Mbotor & Uba, 2013; Okafor, 2012; Onaolapo, 2015; Samson & Udejaja, 2010; Yaron, Benjamin & Piprek, 2013 and among others, but no study in Nigeria have established the relationship between financial inclusion and SMEs contribution to sustainable economic growth in Nigeria between the period of 1970 and 2015. It is of this premise that this study examines the effect of financial inclusion on SMEs contribution to sustainable economic growth in Nigeria.

THEORETICAL FRAMEWORK

The theories underpinning this study are:

i. The Neoclassical Growth Theory

The Robert Solow (1956) neoclassical growth theory stressed the importance of savings and capital formation for economic development. The Neoclassical Growth Theory established that savings and capital formation towards productive, SMEs and real sectors in an economy serve as measures for economic growth and development. In his theory, Robert Solow noted a steady-state growth path is reached when output, capital and labor are all growing at the same rate, so output per worker and capital per worker are constant. Robert Solow believe that to raise an economy's long-term trend rate of growth, there must be an increase in the finance of productive and real sectors, labor supply, and an improvement in the productivity of labor and capital. Neo-classical economists believe that growth cannot be stable, that a sustained increase in capital investment and financing towards productive, SMEs and real sectors in an economy increases the growth rate and sustainability of the growth in order to achieve economic development.

ii. Finance-Growth Theory

The finance-led growth was originated by Bagehot (1873). Theories on the finance growth nexus maintain that financial intermediaries create a productive environment for growth and economic sustainability through supply - leading or demand – following effect. The demand-following effect based the argument that the financial system does not stimulate economic growth rather the financial systems simply react and affect development in the real sectors while the supply leading effect contrasts the demand following argument that financial system in an economy does not determine economic growth. Theoretical tussles do exist about the position of financial intermediary systems in economic growth. Some scholars see the position of financial intermediaries systems or financial system as trivial or insignificant to economic growth while others see it as significant to the economic activities and growth.

The theory also observes that poor access or lack of access to financial services as a critical factor causing persistent income inequality and slower down the economic activities and growth. This indicate that access to safe, easy and affordable source of financial services is acknowledge as a prerequisite for accelerating economic activities, growth, reducing income disparities, reduce poverty level, enhances economically and socially incorporate excluded segment into the economy and protect the financially excluded segment from economic shock (Babajide, Adegboye & Omankhanlen, 2015; Odeniran & Udejaja, 2010; Serrao, Sequeira & Hans, 2010).

iii. Financial Intermediation Theory

A financial intermediation function is the scope by which financial institutions connect deficit spending units and surplus spending units (Ndebbio, 2004; Migap, Okwanya & Ojeka, 2015). This theory established that financial institutions try to answer the questions of intermediaries’ financial processes by linking the surplus units and deficit units, the theory pointed out that banks or financial institutions are able to monitor both borrowers and lenders effectively which is part of their traditional functions. Aduda and Kalunda (2012) examined the effect of financial inclusion on financial sector stability with reference to Kenya, they built their study on financial intermediation theory, since the theory established how financial institutions carry out intermediate role between the deficit and surplus units in order to finance economic agents’ activities and achieve inclusive growth in all sectors.

METHODOLOGY AND DATA ANALYSIS OF THE STUDY

The econometric model for objective of this study is based on the effect of financial inclusion on SMEs contribution to sustainable economic growth in Nigeria. This study adapted Onaolapo (2015) model that financial inclusion affect economic growth. Hence, the model is:

$$RGDP = F (FD1, BBRANCH, SMELOAN, FD2, LDR, LQRT) \text{ ----- Eqn 1}$$

This study re-modified Onaolapo (2015) model to suit objective of this study that financial inclusion significantly affect SMEs contribution to sustainable economic growth in Nigeria. The re-modified econometric model specified below:

$$SMEGDP_t = \beta_0 + \beta_1 BBRANCH_t + \beta_2 SMELOAN_t + \beta_3 CPI + \beta_4 (FD1)_t + \beta_5 (FD2)_t + \beta_6 (LQRT)_t + \mu_t \text{ --- Eqn 2}$$

Where: SMEGDP = SMEs Output rate to Real GDP as proxy for Sustainable Economic Growth; FD1 = Financial Depth i.e Ratio of Broad Money to GDP (M2/GDP); FD2 = Ratio of Credit to Private Sector to GDP (CPS/GDP); LQRT = Commercial Bank Liquidity Ratio; BBRANCH= Bank Branches of Deposit Money Banks; SMELOAN = Deposit Money Bank Loan to SMEs Investors and CPI = Consumer Price Index.

Aprior expectations are: $\beta_1 > 0, \beta_2 > 0, \beta_3 < 0, \beta_4 > 0, \beta_5 > 0, \beta_6 > 0.$

The study is ex-post facto design in nature and used secondary data. The data were sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin, World Development Indicators (WDI) and National Bureau of Statistics (NBS) between the periods

of 1970 and 2015. In order for Y_t (Dependent variable) and X_t (Independent variables) to be co-integrated, the necessary condition is that the estimated residuals from Eq. (2) should be stationary (i.e. $u_t \sim I(0)$).

The study employed Error Correction Model (ECM) due to stationarity of error term (U_t) of the variables in the regression model at level or $I(0)$. This indicates that the variables in the regression model have long run relationship and there speed of adjustment from disequilibrium in the long run relationship will be determine by ECM. The series of the variables were subjected to unit root test and all the variables were stationary at first difference or $I(1)$. The time series data were subjected to Augmented Dickey Fuller (ADF), Phillip Perron (PP) unit root tests, Johansen Co-integration, Error Correction model approach and a number of diagnostic tests were conducted.

- **Analysis and interpretation of the Study**

It had been shown in literatures (Engle and Granger, 1987) that most macroeconomic time series are not stationary. This implies that most ordinary least squares (OLS) regressions that are carried out without stationarity test may not be reliable due to problem of serial correlation. In this study all variables went through the ADF and PP unit root tests. The results are presented in Table 4.1 below.

Table 4.1 Augmented Dickey Fuller Test for Unit Root

Phillip Perron Test for Unit Root

Variables	Test Statistic	1% Critical Value	5% Critical Value	10% Critical Value	Order	Test Statistic	1% Critical Value	5% Critical Value	10% Critical Value	Order
SMEGDP	5.686	4.253	3.548	3.207	I(1)	5.691	4.253	3.548	3.207	I(1)
BBRANCH	4.932	4.253	3.548	3.207	I(1)	4.581	4.253	3.548	3.207	I(1)
SMELOAN	4.532	4.253	3.548	3.207	I(1)	5.798	4.253	3.548	3.207	I(1)
CPI	3.840	4.253	3.548	3.207	I(1)	3.736	4.253	3.548	3.207	I(1)
FD1	5.883	4.253	3.548	3.207	I(1)	11.075	4.253	3.548	3.207	I(1)
FD2	5.244	4.253	3.548	3.207	I(1)	9.180	4.253	3.548	3.207	I(1)
LQRT	3.576	4.253	3.548	3.207	I(1)	3.641	4.253	3.548	3.207	I(1)

Authors Computation (2016)

Table 4.2: Residual (U_t) stationarity test for the model

Null Hypothesis: RESID has a unit root

	t-Statistic
Augmented Dickey-Fuller test statistic	-4.268391
Test critical values:	
1% level	-4.175640
5% level	-3.513075
10% level	-3.186854

*MacKinnon (1996) one-sided p-values.

The residual stationarity test in table 4.2 used to determine whether the regression model output of this study is spurious or not. Since the error term or residual of the variables in the regression model is stationary at level, this signifies that the regression model output is not spurious and also there is long run relationship (co-integration) equilibrium between all the variables in the regression model at 5% critical value. Therefore null hypothesis that error term of the regression model has unit root is rejected. When variables are co-integrated or have long run equilibrium, we can run error correction model to determine the speed of adjustment when there is disequilibrium in the model.

Table 4.3: Johansen Co-integration test of variables

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.728431	196.0253	125.6154	0.0000
At most 1 *	0.631943	138.6695	95.75366	0.0000
At most 2 *	0.607623	94.69076	69.81889	0.0002
At most 3 *	0.458469	53.52735	47.85613	0.0134
At most 4	0.340158	26.53970	29.79707	0.1134
At most 5	0.115177	8.246487	15.49471	0.4394
At most 6	0.062981	2.862296	3.841466	0.0907

Trace test indicates 4 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 *	0.728431	57.35579	46.23142	0.0023
At most 1 *	0.631943	43.97874	40.07757	0.0173
At most 2 *	0.607623	41.16341	33.87687	0.0057
At most 3*	0.458469	26.98765	27.58434	0.0595
At most 4	0.340158	18.29322	21.13162	0.1193
At most 5	0.115177	5.384191	14.26460	0.6928
At most 6	0.062981	2.862296	3.841466	0.0907

Max-eigenvalue test indicates 4 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

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

The Johansen co-integration revealed that long run relationship exists among the variables. Trace test indicates four co-integrating eqn(s) at the 0.05 level among the variables and also supported by Max-eigenvalue test which indicates that four co-integrating eqn(s) at 0.05 level. This result insinuates that financial inclusion indicators have long run relationship with Sustainable Economic Growth in Nigeria.

Table 4.4: ECM Regression output

Dependent Variable: D(SMEGDP)				
Method: Least Squares				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.094249	0.327797	0.287524	0.7752
D(BBRANCH)	0.045567	0.001013	3.559503	0.0390
D(SMELOAN)	0.549376	0.000371	4.016065	0.2159
D(CPI)	-0.014398	0.019467	-0.739609	0.4640
D(FD1)	0.266948	0.140360	1.901878	0.0646
D(FD2)	0.155556	0.001268	2.491883	0.1438
D(LQRT)	0.003278	0.033229	0.098663	0.9219
ECM(-1)	-0.326219	0.019091	-3.325742	0.0470
R-squared	0.670241			
Adjusted R-squared	0.653568			
F-statistic	10.73339	Durbin-Watson stat		1.897902
Prob(F-statistic)	0.002055			

Source: Authors Computation (2016)

The term error-correction term account for the last-periods deviation from a long-run equilibrium, the *error*, influences its short-run dynamics. Thus ECMs directly account for the speed at which a dependent variable returns to equilibrium after a change or disequilibrium in other variables. The ECM indicates the correction of disequilibrium in the system i.e the speed at which the ECM is correcting the disequilibrium of the variables in the model is 32.6% and it is significant at 5% level of significance. The ECM regression out result is in line with the study *a priori expectations* that BBRANCH and FD1 have positive

and significant effect on sustainable economic growth while SMELOAN, CPI, FD2 and LQRT have positive effect but do not significantly affect SMEGDP (SMEs Contribution to Sustainable Economic Growth) in Nigeria. This result indicates that extension of bank branches and increase in money supply in the circulation will significantly affect economic growth sustainability while extension of financial services to SMEs investors in both rural and urban segments and credit supply to private sectors have not significantly increase SMEGDP (SMEs Contribution to Sustainable Economic Growth), this is due to non-extension of financial services to rural SMEs, high cost of financial service which cannot be afford by SMEs investors, government policies toward SMEs in Nigeria, over dependent on importation of products that could have produce locally, crowding out effect of local SMEs due to over importation etc. This result is consistence with Micheal (2016) and Nwankwo and Nwankwo (2014) argument that any economy that experience inadequate financial inclusion or non-financial service extension in the agricultural sector and SMEs rural segment, such economy cannot achieve sustainable economic growth. Joseph and Varghese (2014) also established that mobilization and circulation of finance is the key requirement of economic growth and achieving inclusive growth makes financial inclusion a requirement policy concern for a developing nation like India.

Table 4.5: Diagnostic test

<i>Breusch-Godfrey Serial Correlation LM Test:</i>			
F-statistic	2.083525	Prob. F(2,37)	0.1389
Obs*R-squared	4.656256	Prob. Chi-Square(2)	0.1975
<i>Heteroskedasticity Test: ARCH</i>			
F-statistic	3.356971	Prob. F(1,43)	0.5533
Obs*R-squared	6.370498	Prob. Chi-Square(1)	0.5427
<i>Ramsey RESET Test</i>			
t-statistic	0.511799	Prob. F(1,38)	0.2164
F-statistic	1.309135	Prob. F(1,38)	0.5164
Likelihood ratio	0.06581	Prob. F(1,38)	0.8079
<i>Multicollinearity Test</i>			
Variance Inflation Factors	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.107451	1.572227	NA
D(BBRANCH)	1.03E-06	1.981076	1.476229
D(SMELOAN)	1.37E-07	1.958502	1.504447
D(CPI)	0.000379	1.037561	1.037441
D(FD1)	0.019701	4.155892	4.107640
D(FD2)	0.010872	4.087304	4.072182
D(LQRT)	0.001104	1.135223	1.131827

<i>Chow Breakpoint Test: 2005 Bank Consolidation</i>			
F-statistic	8.738541	Prob. F(7,32)	0.0012
Log likelihood ratio	6.888978	Prob. Chi-Square(7)	0.0405
Wald Statistic	5.169788	Prob. Chi-Square(7)	0.0393
<i>Chow Forecast Test</i>			
F-statistic	6.363732	Probability	0.0424
Likelihood ratio	21.79530		0.0399

Source: Authors Computation (2016)

The Breusch-Godfrey serial correlation test revealed that we do not reject the null hypothesis of *no serial correlation* at 5% level of significance, and also for the Breusch-Pagan-Godfrey heteroskedasticity test, the result indicated that we do not reject the null hypothesis of *no hereroskedasticity* at 5% significance level. Additionally, the Ramsey (Regression Specification Error Test (RESET) indicates that there is no apparent of non-linearity in the regression equation and it would be concluded that the linear model is appropriate. The multicollinearity test from table 4.5 revealed that multicollinearity problem does not exist, since all the center VIF of the explanatory variables is not up to 10.

The change in Nigeria banking system policy by CBN as at 2005 of bank consolidation/ merging of banks significantly affect Nigeria banking system and economic activities as a whole. The structural break Chow Breakpoint Test indicates that bank consolidation in 2005 significantly improve Nigeria banks financial extension service to SMEs investors which in turn improve economic activities since the $P < 5\%$ level of significance. Therefore the null hypothesis that there is no structural break policy is rejected as the $P < 5\%$ significant level. This indicates that bank consolidation in Nigeria increased bank branches and make the bank stronger. The Chow Forecast Test also support the structural break Chow Breakpoint Test that bank consolidation in Nigeria has significant future effect on economic activities since the $P < 5\%$ level of significance.

- **Stability tests**

The stability of the long-run parameters together with the speed of adjustment for the equations was examined. For the stability test, the study relied on cumulative sum (CUSUM) and cumulative sum squares (CUSUMSQ) tests proposed by Borensztein, De-Gregorio and Lee (1998). This same procedure has been utilized by Pesaran and Pesaran (1997) and Suleiman (2005) to test the stability of the long-run coefficients. The tests applied to the residuals of the ECM model.

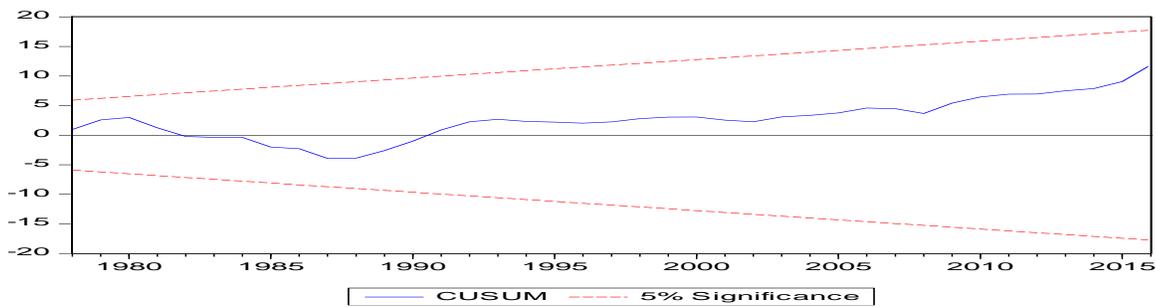


Figure 1: CUSUM

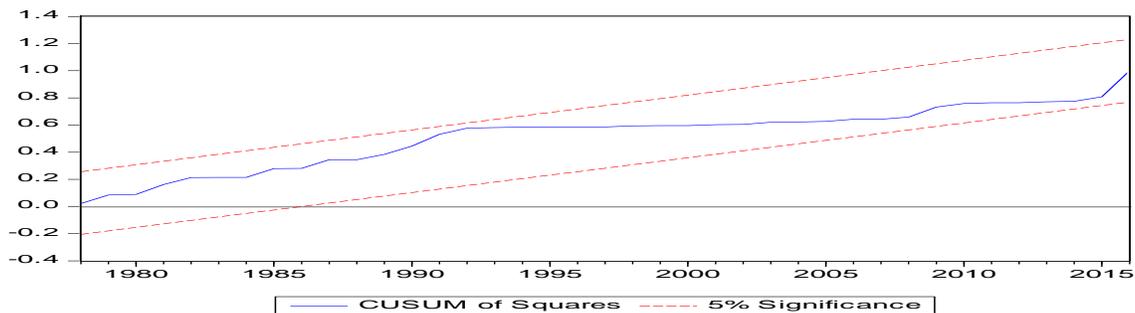


Figure 2: CUSUM of Squares

Figures 1 and 2 show the CUSUM and CUSUM of squares statistics. It can be seen from Figure 1 and 2 that the plots of CUSUM and CUSUM SQUARE statistics stay within the critical 5% bounds that confirm the long-run relationships among variables and thus show the stability of coefficient.

CONCLUSION AND RECOMMENDATION

Based on the findings, this study revealed that financial inclusion of SMEs investors will contribute to sustainable economic growth and development in Nigeria and there is long run relationship between financial inclusion of SMEs investors and Nigeria SMEs contribution to sustainable economic growth. The conclusion is therefore drawn that there is high propensity for SMEs output to boost Nigeria economic activities and sustain economic growth and development if all the financial inclusion indicators are well put in place by the monetary authorities.

- **Policy recommendations**

Based on the outcome of this study, the following recommendations are suggested:

- Since the financial inclusion indicators have positive effect on SMEs economic activities and Nigeria as a nation has the market size that will enhance and contain SMEs economic activities or output, there is need for the governments, monetary authorities and financial service agencies to provide sound and stable macroeconomic

policies/monetary policies that include reduction in lending rate by Monetary Policy Committee (MPC) of the CBN to a single digit compare with the current lending rate at 12%. This will be affordable by both rural and urban investors, so that most SMEs investors can access loans at cheaper rate; as this will increase SMEs economic contribution to sustainable economic growth in Nigeria.

- Governments and monetary authorities should put in place attractive programmes and schemes like National School Entrepreneurship System (N-SEP), Building Entrepreneurs Today Programme (BET), Entrepreneurship Development Training (EDT), Rural Vocational Training (RVT), Enterprise Support Services (ESS) etc in the manufacturing and agricultural SMEs industries by Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) in order to increase their business knowledge and consistent interactive workshops with SMEs investors on likely problems and possible solution to the problems.
- The management of deposit money banks should extend deposit money bank branches and financial services to rural areas and also introduce mobile banking in the rural areas; as these will increase the level of financial inclusion in the rural areas and their participation in economic activities.
- The government should try to improve on infrastructural facilities needed such as power, energy, road system, telecommunication etc in order to attract foreign SMEs investors in Nigeria.
- Governments should strive hard to curb the current insecurity problems such as (Boko haram, kidnappings, Niger-Delta militancy problems and armed robberies) and reduce or eliminate corrupt practices in all sectors of the Nigerian economy in order to achieve transparency which in turn makes Nigerian investment environment secured and attractive to both local and foreign investors.

REFERENCES

- Aduda, J., & Kalunda, E. (2012). Financial inclusion and financial sector stability with reference to Kenya. *Journal of Applied Finance and Banking*, 2(6), 96-120.
- Afolabi, J. A. (2010). Analysis of loan repayment among small-scale farmers in Oyo State, Nigeria. *Journal of Social Sciences*, 22, 115-119.
- Akinlo, A. E., & Egbetunde, T. (2010). Financial sector development and economic growth: The experience of 10 Sub-Saharan African countries revisited. *The Review of Finance and Banking*, 2(1),17-28.
- Babajide, A. A., Adegboyega, F. B., & Omankhanlen, A. E. (2015). Financial inclusion and economic growth in Nigeria. *International Journal of Economics and Financial Issues*, 5(3), 629-637.
- Bagehot, W. (1873). *Lombard Street: A Description of the Money Market*. London.
- Babajide, A. A., Adegboyega, F. B., & Omankhanlen, A. E. (2015). Financial inclusion and economic growth in Nigeria. *International Journal of Economics and Financial Issues*, 5(3), 629-637.
- Borensztein, E., De Gregorio, J., & Lee, J.-W. (1998). How does FDI affect economic growth. *Journal of International Economics*, 45(1), 115-135.
- Chakrabarty, K. C. (2011). Financial inclusion and banks: Issues and Perspectives. *Reserve Bank of India*.

- Chibba, M. (2009). Financial inclusion, poverty reduction and the millennium development goals. *European Journal of Development Research*, 6(8),213-230.
- Egbetunde, T. (2012). Bank credits and rural development in Nigeria (1982-2009). *International Journal of Finance and Accounting*, 1(3),45-52.
- Enhancing Financial Innovation and Access (2010). *EFInA Access to Financial Services in Nigeria 2010 Survey*. EFInA.
- EFInA (2010): Access to financial services in Nigeria. *2010 Survey*.
- Goodland, A., Onumah, G., & Amadi, J. (2012). *Rural Finance*. Policy Series 1, Chatham, U.K.: Natural Resources Institute.
- Gupta, P., Grace-Li, B., & Yu, J. (2015). From natural resource boom to sustainable economic growth: lessons for Mongolia. *IMF WORKING PAPER, WP/15/90*
- Hariharan, G., & Marktanner, M. (2012). The growth potential from financial inclusion. *ICA Institute and Kennesaw State University*. Retrieved from http://www.frbatlanta.org/documents/news/conferences/12intdev/12intdev_Hariharan.pdf
- Joseph, J., & Varghese, T. (2014). Role of financial inclusion in the development of Indian economy. *Journal of Economics and Sustainable Development*, 5(11), 6-11.
- Kama, U., & Adigun, M. (2013). Financial inclusion in Nigeria: Issues and challenges. *Central Bank of Nigeria. Occasional Paper No. 45*
- Khan, H. R. (2011). Financial inclusion and financial stability: Are they two sides of the same coin? Address by Shri H. R. Khan, Deputy Governor of the Reserve Bank of India, at BANCON 2011, *Organized by the Indian Bankers Association and Indian Overseas Bank, Chennai, 4 November 2011*. Retrieved from <http://www.bis.org/review/r111229f.pdf>.
- Levine, R., & Zervous, M. (1996). Financial inclusion for financial stability: Access to bank deposits and the growth of deposits in the global financial crisis. *Policy Research Working Paper 6577, World Bank, Washington*.
- Michael, O. B. (2016). Achieving sustainable economic development in Nigeria through financial inclusion in the agriculture sector. *Journal of Global Economics*, 4(2), 1-5.
- Martinez, M. V. (2011). The political economy of increased financial access. *A Thesis submitted in partial fulfilment of the requirement for the degree of Master of Public Policy to the Faculty of the Graduate School of Arts and Sciences of Georgetown University*.
- Mckinnon, R. (1973). Money and capital in economic development. *Washington D.C. Brooking Institute*.
- Mbutor, O. M., & Uba, I. A. (2013). The impact of financial inclusion on monetary policy in Nigeria. *Journal of Economics and International Finance*, 5(8), 318-326.
- Michael, O. B. (2016). Achieving sustainable economic development in Nigeria through financial inclusion in the agriculture sector. *J Glob Econ*, 4(2), 1-5. doi:10.4172/2375-4389.1000185

Migap, J. P., Okwanya, I., & Ojeka, G. (2015). Financial inclusion for inclusive growth: The Nigerian perspective. *International Journal of Information Technology and Business Management*, 37(1),1-3.

Ndebbio, J. E. U. (2004). Financial deepening, economic growth and development: Evidence from Selected Sub-Sahara African Countries. *AERC Research Papers No. 142 African Economic Research Consortium, Naira*.

Nwankwo, O. & Nwankwo, G. (2014). Sustainability of financial inclusion to rural dwellers in Nigeria: Problems and way forward. *Research Journal of Finance and Accounting*, 5(5), 24-31.

Odeniran, S. O., & Udeaja, E. A. (2010). Financial sector development and economic growth: Empirical evidence from Nigeria. *Economic and Financial Review*, 48(3), 91-124.

Ogbuanu, B. K., Kabuoh, M. N., & Dr Okwu, A. T. (2014). Relevance of small and medium enterprises in the growth of the Nigerian economy: A study of manufacturing SMEs. *International Journal of Advanced Research in Statistics, Management and Finance*, 2 (1), 180-191.

Okafor. F. O. (2012). Financial inclusion: An instrument for economic growth and balanced development in rural areas. *Journal of the Chartered Institute of Bankers of Nigeria*, 6(8), 38-45.

Oladeebo, O. E. (2008). Determinants of loan repayment among small holder farmers in Ogbomosho Agricultural Zone of Oyo State, Nigeria. *Nigeria Journal of Social Science*, 17, 59-62.

Onaolapo, A. R. (2015). Effects of financial inclusion on the economic growth of Nigeria. *International Journal of Business and Management Review*, 3(8), 11-28.

Onaolapo, A. R., & Odetayo, T. A. (2012). Financial inclusion as tools for survival in globally competitive environment: Lessons for Nigerian microfinance banks. *American Journal of Business and Management*, 1(4), 241-247.

Oyelola, O. T., Ajiboshin, I. O., Raimi, L., Raheem, S., & Igwe, C. N. (2013). Entrepreneurship for sustainable economic growth in Nigeria. *Journal of Sustainable Development Studies*, 2, 197-215.

Oyewo, B. M., & Badejo, S. O. (2014). Sustainable development reporting practices by Nigerian banks. *Mediterranean Journal of Social Sciences*, 5, 2535-2344.

Owusu, E. L. (2016). Stock market and sustainable economic growth in Nigeria. *MDPI Economies*, 4(25), 1-13.

Panitchpakdi, S. (2006). Statements at the 10 session of the commission on enterprise, business facilitation & development. *Geneva*, 21 February 2006.

Paul, N. E. (2013). Financial services industry as catalyst for financial inclusion in Nigeria. *A paper presented at the 7th annual Banking and Finance Conference*, organized by Chartered Institute of Bankers of Nigeria (CIBN) at Transcorp Hilton Hotel, Abuja, between 10th and 11th September, 2013.

Pesaran, M. H., & Pesaran, B. (1997). *Working with microfit 4.0: Interactive econometric analysis*. Oxford: Oxford University Press.

Samson O. O., & Udeaja, E. A. (2010). Financial sector development and economic growth. Empirical evidence from Nigeria. *Central Bank of Nigeria Economic and Financial Review*, 48/3 September.

Sanusi, L. S. (2010). Developments in the banking system in Nigeria. Central Bank of Nigeria. *An address to member of the press. pp. 1-4. Retrieved August 2, 2011 from: <http://www.bis.org/review/r090922b.pdf>*.

Serrao, M. V., Sequeira., A. H., & Hans, K. V. (2012). Conceptual framework to investigate the accessibility and impact of financial inclusion. *Indian Journal of Research*,2(9), 23-39.

Suleiman, S. G. (2005). The impact of investment and financial intermediation on economic growth: New evidence from Jordan. *Abstract Mimeo*.

Swamy, V. (2010). Bank-based financial intermediation for financial inclusion and inclusive growth. *Banks and Bank Systems*,5(4), 1-18.

Yaron, J., Benjamin, M. P., & Piprek, G. L. (2013). *Rural Finance: Issue, Design, and Best Practices*. Washington DC, The World Bank.

World Bank Annual Report (2013).

Zuo, H., & Ai, D. (2011). Environment, energy and sustainable economic growth 2011 International conference on green buildings and sustainable cities. *Procedia Engineering*, 21, 513 – 519.

ABOUT THE AUTHORS

Dr Abdullahi, Ibrahim Bello had (B.Sc. Economics) from Ahmadu Bello University, Zaria, Kaduna; M.Sc. Finance and Ph.D Finance from University of Ilorin, Ilorin, Kwara State, Nigeria. Department of Finance, University of Ilorin, Ilorin, Nigeria. Senior lecturer at University of Ilorin, Ilorin, Kwara State, Nigeria

Fakunmoju, Segun Kamoru had (B.Sc. Banking and Finance) from Lagos State University, Ojo, Lagos; M.Sc. Finance from University of Ilorin, Ilorin, Kwara State, Nigeria. Department of Finance, University of Ilorin, Ilorin, Nigeria.