

Non-Bank Financial Institutions and Economic Development in Nigeria

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Abstract Banks are so prominent in the Nigerian economy that non-bank financial institutions (NBFIs) are hardly noticed. It is against this background that this study sets out to investigate the role NBFIs play in economic development. It discovered that NBFIs play a fundamental and complementary developmental role in the economy. To assess the impact of NBFIs on the economy the study used data obtained from CBN Statistical Bulletin and the Statistical Directory of the National Insurance Commission. Trend analysis and Pearson's correlation technique were used to analyse data and test hypotheses. Findings indicate that significant relationship exist between NBFIs credit to the manufacturing and agricultural sectors' GDP. The same relationship was noted between PMIs credit and the building and construction sector's GDP. In order to improve on this, fill up structural gaps and utilize their latent potentials, it was recommended that NBFIs should be made more relevant by channelling the Agricultural Credit Guarantee Scheme Fund through them, and they should be further strengthened through recapitalization.

Keywords Banks, Economic Development, Intermediation, Employment, Recapitalization

1. Introduction

A close examination of financial literature exposes the lopsided attention paid to banks. While it is awash with information on the scope and intensity of banks' contribution to the economy, little is said about the input of non-bank financial institutions (NBFIs) to development. It is true that banks in a developing economy outclass the NBFIs in volume of transaction, versatility of operations, diversity of products and degree of market penetration (Acha, 2005:1). This does not in any way diminish the contributions of NBFIs as they perform similar functions with the banks and complement the efforts of the banks in the financial intermediation process.

Despite their complementary role to banks in the areas mentioned above, NBFIs are known to possess potential advantages in the performance of economic development functions. For instance, certain NBFIs are rural in nature, like the community banks (now microfinance banks), and are therefore able to access greater population of Nigerians and their latent savings potentials. Nigeria is a country in dire need of development and cannot overlook the development potentials of NBFIs.

There is therefore the need for close examination of NBFIs to identify the various types operating in Nigeria.

This paper also aims at determining the contribution of NBFIs to the economy. It is also within the purview of this paper to assess this contribution with a view to making recommendations that will enable the NBFIs play a more robust role in our development efforts.

To achieve the objectives of this paper, theoretical framework is outlined in the next section. This is done by identifying NBFIs in Nigeria and their functions. The third section examines theoretically their role in economic development by assessing their contributions in this direction. The fourth section highlights the problems NBFIs encounter in the performing their developmental roles. In the fifth, data analysis is carried out to empirically assess the impact of NBFIs on development. Finally, recommendations and conclusions are made in the sixth section.

2. Theoretical Framework

To bring our discussion on NBFIs into proper perspective, we will define, identify institutions that fall within this category and examine their functions. The Banks and Other Financial Institutions Act (BOFIA) 1991 defined non-bank financial institutions as;

Any individual, body, association or group of persons; whether corporate or unincorporated, other than the banks licensed under the Act which carries on the business of a discount house, finance company and money brokerage and whose principal object include factoring, project

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financing, equipment leasing, debt administration, fund management, private ledger services, investment management, local purchase order financing, export finance, project consultancy, pension fund management and such other business as the Bank may from time to time designate.

From the foregoing, one can see that the vast operational latitude of NBFIs. This definition goes further to show that functionally, a thin line separates the NFBIs from banks. Furthermore, the traditional difference of banks being the only institution allowed to receive deposits and cheques, drawn on them or paid in by customers, is further whittled down by the inclusion of Community Banks, Primary Mortgage Institutions (PMIs) and Development Finance Institutions (DFIs) as NBFIs (Bamisile, 2004:42). This recent inclusion of these other institutions as NBFIs as highlighted above further increased the scope of NBFIs operations and their relevance in catalysing economic development.

With this new development, we can identify the following NBFIs operating in Nigeria. Finance companies, community/microfinance banks, bureaux de change, discount houses, development finance institutions, insurance companies and primary mortgage institutions. At this stage, it is pertinent that we examine each of them with the intent of functionally understanding their mode of operations.

i. **Finance Companies:** Finance companies engage in short term non-bank money lending, leasing, hire purchase, factoring, LPO financing, export financing, electronic funds transfer and issue of vouchers, coupons, credit cards and token stamps. As finance companies are not authorized to mobilize deposits from the public, they rather rely on owners' equity and borrowings to perform their intermediation role. They are known to play active role in financing small and medium scale enterprises (Onoh, 2004:105).

ii. **Community Banks:** These are self-sustaining financial institutions owned and managed by local communities such as community development associations, cooperatives, town unions, individuals etc. Unlike commercial banks, community banks are unit banks but they can accept deposits, grant credit to their customers and provide limited banking service (Iorchir, 2006:15). They are not allowed to participate in the foreign exchange market neither do they belong to the bank clearing system. To circumvent this rule many community banks develop correspondent relationships with commercial banks to enable them clear cheques. Community banks play active role on rural development by mobilizing rural savings and financing investment at the grassroots (Bamisile, 2004:43). Most of these banks have metamorphosed into Microfinance banks and those of them that could not meet the recapitalization requirement were liquidated (Mobolurin, 2006:24; Isa and Adesokan, 2007:2).

iii. **Bureaux De Change:** In the opinion of Obadan (1993:371) the advent of bureaux de change was predicated on government's desire to correct the shortcomings

identified in the operations of *black marketers*. These parallel markets operators were buying foreign exchange at very low prices only to turn around to sell at very high prices. It was in a bid to control their activities that the government brought them under the supervisory purview of the Central Bank of Nigeria (CBN). They are therefore authorized to buy foreign currency from the public and not from banks (Akpan, 1999:37). Through their operations bureaux de change help to attract hard currency into the country by offering prices better than the official rate and by availing Nigerians abroad who remit monies home a channel to do so. Through this avenue, they boost the foreign exchange reserves of the country and improve the economy ultimately.

iv. **Discount Houses:** The first set of discount houses began operations in Nigeria in 1993. They were established to act as intermediaries between the CBN, the licensed banks and other financial institutions. They mobilize funds for investment in securities by providing discount/rediscout facilities in government short-term securities. By so doing, they facilitated the use of indirect monetary policy tools especially open market operations. Apart from improving the efficiency in monetary policy administration, discount houses have also positively impacted on banks' liquidity, by providing banks an investment outlet for their surplus funds (Agene 1991:108).

v. **Development Finance Institutions:** Development finance institutions (DFIs) popularly known as development banks are specialised institutions established to foster development in specified sectors of the economy. To improve the performance of these institutions government has re-organised them. As part of this re-organization process, government brought them under the supervision of the CBN and merged some of them. The Nigerian Industrial Development Bank (NIDB), the Nigerian Bank for Commerce and Industry (NBCI) and Nigerian Economic Reconstruction Fund (NERFUND) were merged to form the Bank of Industry (BOI). Also, the Nigerian Agricultural and Cooperative Bank (NACB), the People's Bank and Family Economic Advancement Programme (FEAP) were brought together to form the Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB). Akpan (1999:30) identified the need for the provision of long term loans to encourage investment and aid economic development as driving force behind the reorganisation of these institutions. He further pointed out that apart from making loans available, these institutions also extend technical and managerial expertise to the loan beneficiaries.

vi. **Insurance Companies:** These are institutions that undertake to indemnify their customers from economic loss. They mobilize savings through the premium paid by the insured; from this pool of savings they are able to indemnify the few that suffer loss. Insurance plays a very active role in development, (apart from the psychological assurance it gives to investors). It also plays an active role in capital formation and remains a veritable source for long-term development funds (Harrington and Niehaus, 1999:196; Dorfman, 2005:2). Insurance business consists of life,

non-life as well as re-insurance. Despite insurance being the second most important financial institution the industry suffers from poor image and low patronage attributed to poor indemnification process and protracted legal tussle (Akpan, 1994:242). It is believed that the recapitalization in the industry will strengthen them, improve their management, enthrone good corporate governance and ultimately improve their image (Acha, 2007:64).

vii. **Primary Mortgage Institutions:** Primary Mortgage Institutions (PMIs) mobilize long-term funds for the development of housing (Onoh, 2004:113). The National Housing Policy launched by the government in 1992 was aimed to boost activities in this sector. Workers in public and private sectors, banks, insurance companies were mandated to contribute to housing development. These funds were to be lent to PMIs by the Federal Mortgage Bank of Nigeria (FMBN) for on lending. The PMIs apart from mobilizing funds of their own also serve as a conduit through which National Housing Policy loans pass to beneficiaries. Umoh (1997:39) opined that PMIs have not made any appreciable impact in the housing finance market. This he attributed to their unfaithfulness to their operational scope by lending to non-housing businesses. Another factor that has impeded their performance is the paucity of long-term funds in the financial market (Bamisile, 2004).

3. NBFIs and Economic Development

The primary channel through which NBFIs assist in economic development is the intermediation process. They mobilize funds by various means open to them and make same available for investment.

Finance companies for instance make available funds raised through owner's equity contribution and borrowings from other financial institutions, individuals and companies, to investors. Community banks like commercial banks, mobilize deposits from customers in form of savings, current and fixed deposits, insurance companies on the other hand aggregate the premiums paid by policy-holders. Apart from mobilizing their own funds, some NBFIs obtain significant grants and loans from the government and international financial institutions for onward lending. The NBFIs that fall under this last category are development finance institutions and primary mortgage institutions. The foregoing aptly articulates the investment funds generating abilities of NBFIs (Onoh, 2004:106).

In addition to their contribution to economic development through investment funding, NBFIs like bureaux de change encourage 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, citizens resident abroad who wish to bring foreign exchange without passing through 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 (Aghoghovbia, 2006:73).

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 of 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, 2003:4).

Equipment financing and industrial infrastructural development is in the domain of development finance institutions. From funds which they obtain as grants from governments or loans from international financial institutions such as World Bank, these development finance institutions fund long-term real investments. They further contribute to economic progress by providing advisory services, technical and managerial expertise to such projects.

The role insurance companies play in economic development is strikingly outstanding. Apart from being a veritable source of long-term funds, it also possesses an unquantifiable psychological assurance, allaying the risk and loss anxieties of investors. This assurance kindles local entrepreneurial spirit and encourages foreign direct investment. By indemnifying policyholders in case of actual loss, insurance companies ensure production continuity and the maintenance of established consumption patterns and hence improvement of existing living standard (Pritchett, et al, 1996: Isimoya, 2003:1).

Another area where NBFIs have played a vital developmental role is in the reduction of money stock outside the banking system. Akpan 1998:30 rightly pointed out that due to the existence of a grossly under banked rural economy, monetary policy measures instituted by CBN are ineffective. The advent of community banks and their rural focus has gone a long way in correcting this anomaly. The community banks and recently microfinance banks have been able to mop up substantial rural deposits, monies which hitherto remained outside the banking system and hence outside the control of monetary authorities. Monetary policy which is geared towards varying money supply to check inflation and enhance rapid economic development has through the instrumentality of these banks become more effective (Ojo, 1994:10).

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). The presence of an avenue to discount these securities encourages banks and other investors to buy them, 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. 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, 1993:15; Oresotu, 1993:158).

NBFIs contribute to the amelioration of the massive unemployment experienced in the country. Apart from those directly employed to work for them, there is a teeming number of unemployed graduates, artisans, farmers, etc who establish businesses from credit made available by 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.

4. Problems of NBFIs

The development potentials of NBFIs are impeded by a myriad of problems that confront them. Some of these are systemic while others are endogenous. A few of these problems are discussed below:

i. **Distress.** The financial distress of the 1990's thoroughly decimated the ranks of NBFIs. Several NBFIs (Community banks, PMIs, Finance companies, etc) became distressed during this period and were subsequently liquidated.

The distress experienced by the NBFIs could be attributed to several reasons. Some of which include inadequate capitalization, poor management and illiquidity. The harsh economic environment and the distress of banks which some of them had dealings with also contributed immensely to the problems of NBFIs.

ii. **Funding.** Some NBFIs like DFIs were used to government subventions and international aids. When government subventions dried up and international donors were not forthcoming, these NBFIs became moribund. It was this situation that gave the present government the impetus to reorganise this sector by merging some of them.

iii. **Operational Deficiency.** The policy establishing community banks envisaged a financial institution that will engender economic development by funding small and medium term enterprises without attaching the commercial bank kind of stringent loan conditions. This policy though laudable did not take our societal value system into consideration, as most of the entrepreneurs that benefited from these uncollateralized loans refused to repay. Their refusal compounded the problems of these NBFIs.

The case of the DFIs was not much different but in their own case being government establishments the loan beneficiaries saw it as their own share of the "national cake" (Alashi, 2002:49).

iv. **Capitalization.** Most NBFIs were established with very little capital. Those that were adequately capitalised had their capital base eroded by bad debt. The inadequate capitalization made it impossible for these institutions to withstand economic shocks and losses. In the case of community banks, the initial recommended capitalization was as low as ₦250, 000.00. This allowed nefarious characters and criminals apply for licenses which they used to dupe unsuspecting depositors. This may have informed the capitalization review in the case of microfinance banks to ₦20m and one billion naira for unit and state-wide

microfinance banks respectively.

v. **Competition.** With the deregulation of the Nigerian economy in the mid 1980's there was a tremendous upsurge in the number of banks and NBFIs operating in Nigeria (Acha, 2004:128). This increase in number engendered keen competition among them for deposits. NBFIs most of them being smaller and with fewer branches or no branches at all, as in the case of community banks, could not therefore compete effectively with the banks.

5. Data Presentation and Analysis

Having observed earlier that the main channel through which NBFIs contribute to economic development is the intermediation process. We will proceed to vividly illustrate the extent of this contribution by the NBFIs in Nigeria using facts and figures.

The contributions of community banks, primary mortgage institutions, finance companies and insurance companies would be examined. It is also important that we note that in line with CBN policy community banks have since 2007 transmuted into microfinance banks.

Table 5.0. Community Banks' Deposits and Loans to the Economy (1992–2008).

Year	Total Deposit (N'm)*	+Annual Increase (N'm)		Total Loan (N'm)*	+Annual Increase (N'm)	
			%			%
1992	6554.30	-	-	208.9	-	-
1993	1576.3	(4,978)	-315.8	334.7	125.8	37.6
1994	1044.2	(532.1)	-51.0	560.3	225.6	40.3
1995	1103.8	59.6	5.40	394.9	(165.4)	-41.9
1996	2489.4	1385.6	55.7	754.8	359.9	47.7
1997	4165.9	1676.5	40.2	738.0	(16.8)	-2.3
1998	4337.6	171.7	3.96	785.9	47.9	6.1
1999	4596.4	258.8	5.63	924.2	138.3	15.0
2000	4467.00	(129.4)	-2.90	855.05	(69.15)	-8.09
2001	1354.73	(3112.27)	-229.73	1024.65	169.6	16.55
2002	34483.07	33128.34	96.07	6600.62	5575.97	84.48
2003	36136.42	1653.35	4.58	12895.56	6294.94	48.82
2004	64581.30	28,444.88	44.05	6000.0	(6895.56)	-1.15
2005	78040.20	13,458.9	17.3	2100.00	(-3900)	-185.71
2006	82928.67	4888.47	5.90	7560.0	5460	72.2
2007	155913.20	72984.53	48.81	40759.4	33199.4	81.5
2008	159414.10*	3500.9	2.20	97150.0	56390.6	58.0

Source: *CBN Statistical Bulletin, 2008/ +Author's computation (Annual increases)

Note: From 2007 Community Banks ceased to exist and the survivors transmuted to Microfinance Banks according to CBN's directive.

Community banking took off effectively in Nigeria in 1991 and by 1992 as the data indicate had mobilized ₦639.6m. Since most of these are located in the under banked rural areas of the country, the implication of this therefore is that the ₦639.6m is money that hitherto remained in the informal finance sector and hence outside regulatory authorities control. The community banks subsequently continued to improve in their deposit drive as they recorded an increase ₦1548.6m in their deposit base between 1992 and 1993. This increasing trend continued

throughout the period but was punctuated in 1995, 1999, 2001 and 2006 by 13.5%, 7.6%, 133.4% and 39.7% decreases. At its peak in 2008 microfinance banks mobilized as much as N54431.0m deposits.

On loans to the economy, from a humble 135.8 in 1992 community bank loans increased to N654.5 in 1993 a 79.3% difference. This trend continued in 1996 as community bank loans had risen to 1400.2m and in 1999 it was 2958.3m. By 2001 there was a tremendous slump in community bank loans to the economy as loans reduced to N1314.0m a decrease of 179.0% from previous years figures. Total loans by microfinance banks to the economy, peaked in 2008 at N36793.7m an increase of 37.9% from the previous year

The development thrust of primary mortgage institutions is the financing of housing and infrastructural facilities. The data above reflects the turbulence which primary mortgage institutions have undergone in recent times. From a deposit level of N6554.3m in 1992, deposit continued to slide and hit the lowest ebb for the period under review 1994 at N1044.2m. From then, deposit mobilized by primary mortgage institutions continued to improve. By 1999 it had grown to 4596.4m. After the drop on deposits in 2000 and

2001 (2.9% and 229.7%) the deposits regained their incremental tempo. From the N1354.73m of 2001 it increased to N159414.10m in 2008. Primary mortgage institutions also contributed to infrastructural development by lending money for this purpose. Their loans increased from N208.9m in 1992 to as much as N754.8m in 1996, a 72.3% rise. By 1999, PMIs loans had increased to 924.2m and in 2000 it slightly reduced to N855.1m. Despite the downturns in 2004 and 2005 when PMIs loans were N6000m and N2100m respectively, the trend changed in 2006 with an increase of 72.2% as PMIs loans rose to N7560m. This incremental trend was sustained subsequently as PMIs loans grew to N40759.4m and N97150m in 2007 and 2008.

The decrease in the deposits of PMIs (from 6554.3m in 1992 to as low as N1103.8m in 1995 and N1354.73m in 2001), could be attributed to several factors. One of these is the promulgation of the PMIs Decree of 1989 with stringent conditions as regards their operation, capitalisation, management and supervision. The financial distress which followed deregulation also took its toll on the PMIs as many of them were affected and subsequently liquidated..

Table 5.1. Primary Mortgage Institutions Deposits and Loans to the Economy (1992 – 2008)

Year	Total Deposit (N'm)*	+Annual Increase		Total Loan (N'm)*	+Annual Increase	
		(N'm)	%		(N'm)	%
1992	639.6	-	-	135.8	-	-
1993	2188.2	1548.6	70.8	654.5	518.7	79.3
1994	3216.7	1,028.5	31.9	1220.6	566.1	46.4
1995	2834.6	(382.1)	13.5	1129.8	(90.8)	-8.04
1996	2876.3	41.7	1.5	1400.2	270.4	19.3
1997	3181.9	305.5	9.6	1618.8	218.6	13.5
1998	4454.2	1272.3	28.6	2526.8	908	35.9
1999	4140.32	(313.88)	-7.6	2958.3	431.5	14.6
2000	7689.4	3549.08	46.2	3666.6	708.3	19.3
2001	3294.0	(4395.4)	-133.4	1314.0	(2352.6)	-179.0
2002	9699.2	6405.2	66.0	4310.9	2996.9	69.5
2003	18075.0	8,375.8	46.3	9954.8	5643.9	56.7
2004	21407.9	3,332.9	15.6	11353.8	1399	12.3
2005	47523.7	26,115.8	55.0	28504.8	17151	60.1
2006	34017.7	(13,506.0)	-39.7	16450.2	(12054.6)	-73.3
2007*	41217.7	7200	17.5	22850.2	6400	28.0
2008	54431.0	13,213.3	24.3	36793.7	13943.5	37.9

Source: *CBN Statistical Bulletin, 2008/ +Author's computation (Annual increases), Provisional

Table 5.2. Finance Companies Borrowings, Loans and Investments (1993 – 2008).

Year	Borrowing (N'm)*	+Annual Increase		Total Loan (N'm)*	+Annual Increase	
		(N'm)	%		(N'm)	%
1992	1292.0	-	-	1512.8	-	-
1993	6969.9	5677.9	81.5	4767.7	4121.2	73.2
1994	5449.8	(1520.1)	-27.9	5079.1	(846.3)	-17.7
1995	6819.0	1369.2	20.1	3967.5	291.4	5.7
1996	4846.7	(1972.3)	-40.7	5517.1	(1111.6)	-28.0
1997	7744.4	2897.7	37.4	4114.9	1549.6	28.1
1998	5172.2	(2572.2)	-49.7	4347.5	(1402.2)	-34.1
1999	5111.2	-61.0	-1.2	5270.9	232.6	5.4
2000	4856.1	(255.1)	-5.3	8608.6	923.4	17.5
2001	8195.9	3339.8	40.8	6291.4	3,337.7	38.8
2002	7403.4	(792.5)	-10.7	19111.7	(2317.2)	-36.8
2003	19616.6	12213.2	62.3	20050.4	12,820.3	67.1
2004	21394.2	1,777.6	8.3	22007.7	938.7	4.7
2005	22797.5	1403.3	6.2	32601.9	1957.3	8.9
2006	34647.1	11,849.6	34.2	32601.9	10,594.2	32.5
2007	39900.0	5,252.9	13.2	39500.0	6898.1	17.5
2008	19878.7	(20,021.3)	-100.7	102029.8	62,529.8	61.3

Source: *CBN Statistical Bulletin, 2008/ +Author's computation (Annual increases)

Finance companies are not allowed to mobilize deposits from the public. They therefore rely on owners' equity and borrowing to facilitate their intermediation role. Finance companies borrowings fluctuated throughout the period under consideration. From N6969.9m in 1993 it declined to as low as N4846.7m in 1996. In 1997, an increase of N2897.7m over the 1996 figure was recorded, after which the declining trend persisted between 1998 and 2000. Resurgence was witnessed in 2001 as PMIs borrowing increased to N8195.9m. This trend continued until 2007 when after N39900.00m borrowing a decline of 100.7% was recorded in the next year 2008. Loans of finance companies also witnessed the same fluctuating trend. They declined by N846.3m between 1993 and 1994 only to appreciate by N291.4m in 1995. This trend continued fluctuating until 2003, since then, persistent increases have been recorded culminating to total credit of N102029.8 in 2008.

As discussed in the literature, insurance companies mobilize funds from surplus economic unit as premium and make same available for long term developmental investments. The table above shows the progress made by the insurance industry in Nigeria in this direction between 1992 and 2008.

From a total premium of N1920.3m in 1992 the industry took a quantum leap to N14144.9m in 1994 and increase of N12224.6m. Throughout the period under review, insurance premium grew except for 1995 and 1998 that witnessed declines. From the paltry N1920.3m in 1992, premium increased to N105379.28m in 2007.

Table 5.3. Insurance Premium (1992 – 2008)

Year	Total Premium (N'm)	Annual Increase N'm	Annual Increase %
1992	1920.3		
1993	4610.2	2689.9	58.4
1994	14144.9	9534.7	206.8
1995	13119.9	(1025.0)	-7.8
1996	20600.97	7,481.07	36.3
1997	21780.25	1,179.28	5.41
1998	14475.38	(7,304.87)	-50.5
1999	23187.46	8,712.08	37.6
2000	26927.79	3,740.33	13.9
2001	35268.59	8,340.8	23.7
2002	46474.79	11,206.2	24.1
2003	53597.71	7,122.92	13.3
2004	61780.02	8,182.31	13.2
2005	79917.65	18,137.63	22.7
2006	95006.09	15,088.44	15.9
2007	105379.28	10,373.19	9.8
2008	Na	-	-

Sources:

- CBN Statistical Bulletin 1992 – 1995 figures
- Statistical Directory by National Insurance Commission (1997 – 2007 figures)
- Author's computation (Annual increases)

5.1. Hypothesis Testing

To further examine the contribution of NBFIs to economic development, analysis of the relationship between their credit to the economy and gross domestic product (GDP) is made here. The idea is to establish if the facilities they extended to the various productive sectors of the economy had any positive impact on them. To achieve this, the following hypotheses are formulated for testing.

- i. Ho - There is no significant relationship between NBFIs credit to the economy and the agricultural sector's contribution to GDP.
- ii. Ho - There is no significant relationship between NBFIs credit to the economy and the manufacturing sectors' contributing to GDP.
- iii. Ho - There is no significant relationship between PMIs credit to the building and construction sector and the GDP of that sector.

Pearson's correlation technique is adopted to establish relationships between the variables and students't' test was used to test the significance of relationships established. For Pearson's correlation coefficient and decision rule see below:

- (i) Pearson's correlation coefficient

$$r_{xy} = \frac{n\sum xy - \sum x\sum y}{\sqrt{\{n\sum x^2 - (\sum x)^2\} \{n\sum y^2 - (\sum y)^2\}}}$$

- (ii) Decision rule:

Accept Ho: if $t_c < t_t$

Reject Ho: if $t_c > t_t$

Degree of freedom = $n - 2 = 8$

Level of significance = 5%
 tt for 2 tailed test = 1.86
 where
$$tc = \frac{(r_{xy})(n-2)}{\sqrt{-(r_{xy})^2}}$$

5.1.1. Test of Hypothesis I

Hypothesis Tested:

H₀: There is no significant relationship between NBFIs credit to the economy and agricultural sector's contribution to GDP.

H₁: There is significantly relationship between NBFIs credit to the economy and agricultural sector's contribution to GDP.

Correlations Result:

Correlations			
		VAR00003	VAR00001
VAR00003	Pearson Correlation	1	.786**
	Sig. (2-tailed)	.	.000
	N	17	17
VAR00001	Pearson Correlation	.786**	1
	Sig. (2-tailed)	.000	.
	N	17	17

** . Correlation is significant at the 0.01 level (2-tailed).

Data analysed: see Table 4.4.

Summary of Results:

$rx_{y}=0.79$
 $tc=4.99$
 $tt=2.13$

Decision: Since $tc > tt$ we reject H₀ and accept H₁

Table 5.4. RGDP, Agric. Sector GDP, Manufacturing GDP & NBFIS Credit (1992 – 2008). ₦'m

Year	Agric. Sector GDP	Manufacturing GDP	NBFIS Credit
1992	89345.4	15357.2	1857.5
1993	90596.5	14788.1	6623.2
1994	92833.0	14591.4	6568.6
1995	96220.7	13836.1	6603.8
1996	100216.2	13953.4	6122.5
1997	104514.0	14010.0	7873.9
1998	108814.1	13046.3	7427.6
1999	114570.7	13494.6	8230.0
2000	117945.1	13958.8	9792.55
2001	122522.3	14935.1	10947.25
2002	190133.4	16439.4	17202.92
2003	203409.9	17369.6	41962.06
2004	216208.5	19436.8	37404.20
2005	231463.6	21305.1	52612.50
2006	248599.0	23305.9	56612.10
2007	266477.2	25535.5	103109.60
2008	283913.1	27905.0	235973.50

Source: CBN Statistical Bulletin, 2008.

Manufacturing = oil refining, cement and others

Agriculture = Crop production, livestock, forestry and fishing.

5.1.2. Test of Hypothesis II

Hypothesis Tested:

H₀: There is no significant relationship between NBFIs

credit to the economy and manufacturing sector's contribution to GDP.

H₁: There is significantly relationship between NBFIs credit to the economy and manufacturing sector's contribution to GDP.

Correlation results:

Correlations			
		VAR00003	VAR00002
VAR00003	Pearson Correlation	1	.883**
	Sig. (2-tailed)	.	.000
	N	17	17
VAR00002	Pearson Correlation	.883**	1
	Sig. (2-tailed)	.000	.
	N	17	17

** . Correlation is significant at the 0.01 level (2-tailed).

Data analyzed: see Table 5.4.

Summary of Results:

$rx_{y}=0.88$
 $tc=7.00$
 $tt=2.13$

Decision: Since $tc > tt$ we reject H₀ and accept H₁

5.1.3. Test of Hypothesis III

Hypothesis Tested:

H₀: There is no significant relationship between PMIs credit to the building and construction sector and the GDP of that sector.

H₁: There is significant relationship between PMIs credit to the building and construction sector and the GDP of that sector.

Correlation Result:

Correlations			
		VAR00004	VAR00005
VAR00004	Pearson Correlation	1	.801**
	Sig. (2-tailed)	.	.000
	N	17	17
VAR00005	Pearson Correlation	.801**	1
	Sig. (2-tailed)	.000	.
	N	17	17

** . Correlation is significant at the 0.01 level (2-tailed).

Data analysed: see Table 5.5.

Summary of Results:

$rx_{y}=0.80$
 $tc=5.16$
 $tt=2.13$

Decision: Since $tc > tt$ we reject H₀ and accept H₁

5.2. Findings

Pearson's correlation coefficient showed strong positive relationship between NBFIs credit and Agriculture sector's contribution to GDP. This position was confirmed by the student't' test which established that this relationship is significant. This implies that agricultural sector is getting the much required.

Also a significant positive relationship was established between NBFIs credit and the manufacturing sectors GDP.

Same scenario played out between PMIs credit and building and construction sector's GDP, giving rise to the rejection of the null hypotheses. The implication of that is the credit of NBFIs and PMIs contributed significantly to these sectors' productivity.

Table 5.5. PMIs Credit and Building & Construction Real Gross Domestic Product 1992 – 2008. (₦m)

Year	PMIs Credit	Building & Construction GDP
1992	208.9	4701.3
1993	334.7	4936.3
1994	560.3	5084.4
1995	394.9	5221.7
1996	754.8	5284.3
1997	738.0	5622.5
1998	785.9	5959.9
1999	924.2	6186.4
2000	855.05	6433.8
2001	1024.65	7205.9
2002	6600.62	7518.9
2003	12895.56	8176.8
2004	6000.00	7622.5
2005	2100.00	8544.5
2006	7560.00	9654.8
2007	40759.40	10912.6
2008	97150.00	12337.5

Source: CBN Statistical Bulletin, 2008.

6. Summary, Recommendations and Conclusion

6.1. Summary of Findings

A close examination of the statistics pertaining to various NBFIs existing in Nigeria confirmed their developmental role. Literature had expressed the notion that NBFIs contribute to economic development via the intermediation process. Facts as revealed by statistics confirmed this assertion as all the NBFIs assessed were seen to mobilize substantial amount of funds from surplus economic units in form of deposit, borrowing, premium, etc for onward lending to the deficit economic unit as loans, investment etc. Apart from this, the NBFIs are known to also contribute to economic growth through other avenues like reducing financial dualism, increasing efficiency of monetary policy instruments, making houses available to Nigerians, encouraging entrepreneurial zeal by reducing risks and by deepening the financial system.

6.2. Recommendations

Having highlighted the contributions of NBFIs to the economy, this section seeks to suggest ways to improve their structures and operations to make them more efficient and by extension contribute even more to the development of our economy. With this in mind, the following suggestions are made;

i. The CBN should organize 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 commercial banks. Some of these correspondent banks are known to slow down the microfinance banks with conditionalities, commissions and other charges in order to boost their own profitability and reduce competition from these banks.

ii. Primary Mortgage Institutions should be made to play a more robust role in housing delivery to Nigerians. A situation where PMIs are forced to operate in the short-term financing market due to the paucity of long term funds is unacceptable. To encourage them to play their main role of providing long-term funds for housing development, long term funds should be made available to them. The pension deductions made from workers' salaries could be a veritable source of mortgage financing.

iii. The restructuring and consolidation as done in the insurance industry should be extended to the other NBFIs if they are to remain competitive. The recapitalization in the insurance industry is a step in the right direction. Other NBFIs should follow the cur. Recapitalization will bring about consolidation through mergers and acquisition this will strengthen the NBFIs and position them for better service delivery.

iv. Close examination of the operations of insurance companies is advocated. Claims settlement is the aspect of insurance identified in literature as steeped in malpractice. This discourages potential insured from taking up policies.

v. To improve NBFIs' credit extension to the agricultural sector, microfinance banks many of which are rural based can be incorporated into government's agricultural credit guarantee scheme (ACGS). This way microfinance banks will not only be encouraged to lend to agriculture but these funds will reach actual farmers and the inconveniences of their having to travel long distances to process these loans would be arrested.

6.3. Conclusion

This study started by identifying the various NBFIs operating in Nigeria. It went further to highlight the roles they play in economic development. In so doing the functions of various NBFIs were examined and their contributions to economic development x-rayed.

It was discovered that despite the enormous contribution of NBFIs to the economy that most of its potentials in this direction remains untapped. Based on this, recommendations were made which implementation is expected to strengthen the NBFIs, improve their competitiveness and increase their contribution to economic development.

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