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Research Article

Contribution of Non-Bank Financial Institutions to Economic Growth of Nigeria (2010-2019)

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Abstract: The paper investigated contribution of non-bank financial institutions to economic growth of Nigeria from 2010 to 2019. Data used for the study was sourced from Central Bank of Nigeria Statistical Bulletin. Data obtained was analysed using Ordinary Least Square (OLS) method. From the empirical result obtained from the study, non-bank financial institutions in Nigeria by their investment in financial assets and treasury bill had positive and significant effect on gross domestic product (GDP). From the findings of this study, the paper recommends that government should create an enabling environment to promote rapid development of non-bank financial institutions in Nigeria in order to attract investors and improve the asset base of the non-bank financial institutions.
Keywords: Non-bank financial institutions, financial assets treasury bill and economic growth.

1.0 Introduction

Economic growth is measuring the size of national economics, the macro-economic indications especially the gross domestic product per capital, in an ascendant but not necessarily linear direction, with positive effect on the economic-social sector. Economic growth is generally agreed to indicate development of an economy as it transforms a country from a lower level to a higher level.

Dandana and Nwele (2011) stated that economic growth is the increase in inflation adjusted market value of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in the real gross domestic product (GDP). Of more importance is the growth of the ratio of (GDP to population GDP per capital which is also called per capital income). An increase in growth caused by more efficient use of inputs (such as physical capital, population or territory) is referred to as intensive growth. Economic development has remained a serial problem bedeviling the Nigerian state since independence as several efforts geared towards economic recovery have failed to yield meaningful results.

The essential part of any economy is the financial system. Banks and other non-bank financial institutions (NBFIs) are the basic parts of a financial system.

Non-bank financial institutions are financial institutions that do not have full banking licence and thus cannot take deposits. However, they compete with and complement traditional banking institutions by providing alternative financial services such as contractual savings (pension funds and insurance companies), investment intermediaries (finance companies, mutual funds and money market funds), microloan organizations and venture capitalists (Rateiwa and Aziakpono, 2017).

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. This is because an efficient financial system is essential for building a sustained economic growth and an open vibrant economic system (Adekunle *et al.*, 2013). A well-developed financial sector performs a very critical function such as enhancing the efficiency of financial intermediation. Financial institutions are seen as the engine room for growth and development (Mckinnon, 1973; Shaw, 1973).

Studies have shown that financial system is not fully developed in Nigeria, and as such, the non-bank institutions have not attained the standards expected from them in the process of economic development. It has been argued that non-bank financial institutions have contributed less than expected due to lack of access to fund (Acha, 2012).

The link between the financial sector and the growth of the economy has been weak. The real sector of the economy, most especially the high priority sectors which are also said to be economic growth drivers are not effectively and efficiently serviced by the financial sector. Most of the operators in the productive sector are folding up due to the inability to get loan from the financial institutions or the cost of borrowing was too outrageous (Osuala and Odunze, 2014). In view of the above problems, this study investigates contribution of non-bank financial institutions to economic growth in Nigeria.

2.0 Literature Review

2.1 Conceptual Review

2.1.1 Non-Bank Financial Institutions

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 licenced under the Act which carries on the business of a discount house, finance company and money brokerage and whose principal object include factoring, project 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.

Non-bank financial institutions are financial institutions other than deposit money banks that are involved in the mobilization of funds from surplus unit in the economy and making such funds available to deficit unit for investments.

The Central Bank of Nigeria (CBN) regulates and supervises the following categories of non-bank financial institutions: bureau de-change, finance companies, discount houses, microfinance banks, primary mortgage institutions and development financial institutions such as Federal Mortgage Bank of Nigeria (FMBN), Nigeria Export-Import Bank (NEXIM), Bank of Agriculture (Ikechukwu and Chijindu, 2016).

2.1.2 Economic Growth

Economic growth is a gradual and steady change in the long-run which comes about by a general increase in the rate of savings and population. It has been described as a positive change in the level of production of goods and services by a country over a certain period of time. Economic growth is measured by the increase in the amount of goods and services produced in a country. An economy is said to be growing when it increases its productive capacity which later yield more in production of more goods and services (Adekunle *et al.*, 2013). The primary channel through which non-bank financial intermediaries assist in economic development is the intermediation process. They mobilize funds by various means open to them and make same available for investment (Ache, 2012).

2.2 Theoretical Review

2.2.1 Financial Intermediation Theory

Financial intermediation theory was developed in 1960 by Gurley and Shaw. The theory explains the importance of intermediation process of financial intermediaries in the economy as a whole. The financial intermediation theory is based on the theory of informational asymmetry and the agency theory. Financial intermediaries are regarded as companies that have as sole purpose the profit maximization.

2.2.2 Shareholders' Theory
Milton Friedman propounded the shareholders' theory in 1970. He opined that the objective of most business is to increase shareholders' profit. The implication of this is that a business belonging to shareholders should be managed in their interest. The emphasis of the shareholder theory is on the maximization of its shareholders value. The shareholder's theory is also premised on the fact that managers are hired as agents by shareholders to operate a business in their interest, thus empowering them legally and morally to act on their behalf (Cole and Akintola, 2021).

2.2.3 Transaction Costs
The transaction cost approach is a follow up to the perfect market condition where according to the neo-classical economists, prices in the market cannot be influenced by one partaker, conditions for lending and borrowing for all partakers are indistinguishable, and all information concerning factors and components capable of influencing the present or future value of financial securities are instantaneously at disposal of all partakers. In this approach, the banks become the alliance of the lenders and borrowers who take advantage of the economies of scale or scope which arise through maturity transformation and size or bank diversification of their business. The transaction cost is not just the cost of fund the borrower pays to the lender or intermediaries, it also encompasses enforcement, monitoring, verification and search costs (Ikechukwu and Chikindu, 2016).

2.3 Empirical Review
Osuala and Odunze (2014) in their study of loans and advances on economic growth in Nigeria for the period 1996 to 2010 using Bound Test approach to Co-integration. The result of their study showed a long-run relationship between economic growth and loans and advances of insurance companies. They recommended investment friendly policies (which they failed to spell out) from concerned authorities to promote insurance industry.

Ogiriki and Andabai (2014) examined relationship between financial intermediation and economic growth in Nigeria from 1983 to 2013. They employed Vector Error Correction Model (VECM). In their analysis but failed to take a position in their conclusion regarding the relationship that exists between financial intermediation and economic growth in Nigeria. They only emphasized on the speed of adjustment of their model (ECM(-1), the existence of co-integrating equations and the coefficient of determination of value.

Ndugbu *et al.,* (2015), studied the impact of bank and non-bank financial institutions on economic growth in Nigeria from 1992 to 2012. They used Ordinary Least Square (OLS) regression analysis to show that financial institutions play a vital role in the growth of the Nigerian economy therefore recommended that financial reforms should be sustained.

Igbanibo and Iwedi (2015) studied the linkage between finance companies' intermediation functions and economic growth in Nigeria. Using an annual time series data spanning the period of 1992 to 2014 with the application of the estimation techniques of the Ordinary Least Square, co-integration test alongside granger causality test. The result indicates that about 80% of the variation in GDP for estimation period were captured by the explanatory variables, financial intermediation functions of finance companies have a prominent role in determining the performance of the Nigeria economy.

Ikechukwu and Chijindu (2016) investigated role of non-bank financial institutions on financial intermediation from 1992 to 1994. Unit root test was conducted to ensure all the variables were free from stationarity defect. Long-run relationship was tested using Johansen co-integration approach. The result reveal that it is only primary mortgage institutions activities that have significant effect on financial intermediation process while there is no evidence of the significant effect on discount houses, microfinance banks and finance companies on financial intermediation process.

The study recommended that monetary authorities should put in place adequate regulatory framework for the operations of non-bank financial institutions in Nigeria especially primary mortgage institutions as it has significant effect on financial intermediation process based on the finding of the study.

Rateiwa and Aziakpono (2017) investigated non-bank financial institutions and economic growth: evidence from Africa's three largest economies namely Egypt, Nigeria and South Africa over the period 1971 to 2013. The study employed Johansen Cointegration and Vector Error Correction Model within a country specific setting. The results showed that the long-run relationship between non-bank financial intermediaries' development and economic growth is relatively stronger in Egypt and South Africa than in Nigeria. Evidence in respect of Nigeria shows that such a relationship is weak. The study concludes that in countries with more developed financial systems, the role of NBFIs and their importance to the economic growth process are more pronounced. Thus, there is need for developing policies targeted at developing the NBFI Sector, given their potential to contribute to economic growth.

Samuel and Akarara (2016) investigated non-bank financial institutions versus economic growth: the applause in Nigeria. Quarterly time series data from 1992 to 2014 sourced from Central Bank of Nigeria statistical bulletin 2014 were used. The result showed that non-bank financial institutions have positive but insignificant relationship on economic growth.

Ugwunta and Ugwuanyi (2019) investigated insurance development and economic growth: an examination of non-bank financial institutions in Nigeria from 1970 to 2010. Data was obtained from Central of Nigeria Statistical Bulletin. To measure the relationship and the impact of the explanatory variables on economic growth the paper adopted a generic regression equation. Results suggest that total trade; investment of the insurance sector in financial asset; and insurance premiums have a high, positive and direct relationship with economic growth. Overall, the findings revealed that the focal variables insurance sector investment in financial assets; and insurance sector premiums significantly contribute to the economic growth of Nigeria.

Khowaja *et al.,* (2020) investigated non-banking financial institutions in perspective of economic growth of Pakistan. Regression and Pearson's correlation techniques are adopted to analyze the financial performance of NBFIs extend the effective benefit to the shareholders and investors to expand business operations and NBFIs asset-based financing to the SME sector and the SMEs contribution to the DGP of Pakistan.

Result of the findings showed a positive connection between NBFIs asset-based financing to the SME sector and the SME's contribution to the economic growth of Pakistan. The study recommends NBFIs operational scale should be expanded to semi-urban and rural areas of Pakistan.

Travkina *et al.,* (2022) investigated the role of non-bank financials in the formation of long-term resources for economic growth in Russia. When carrying out the study, they used general scientific methods, methods of structural, weight, and dynamic analysis, and comparisons of performance indicators of non-bank financial institutions.

The positive dynamics of the development of non-bank financial intermediaries is qualified as unstable; it is not supported by the solution of the structural and institutional problems of the Russian economy. In view of this, an increase in their role in the redistribution process is associated both with decisions of a more general order and with the improvement of the regulatory and supervisory practices implemented by the Bank of Russia. The solution to the identified problems in the development of the non-banking segment of the financial market should be aimed at turning it into an effective mechanism for capital formation to ensure economic growth.

3.0 Methodology
The study is on contribution of non-bank financial institutions to economic growth of Nigeria from 2010 to 2019.

3.1 Research Design
Ex post facto research design was adopted in this study.

3.2 Source of Data
Secondary data was obtained from Central Bank of Nigeria Statistical Bulletin from 2010 to 2019.

3.3 Method of Data Analysis
Data obtained was analyzed, interpreted in order to facilitate a valid conclusion on the contribution of non-bank financial institutions to economic growth of Nigeria from 2010 to 2019. The major statistical tool used is the Ordinary Least Square (OLS) method.

3.4 Model Specification
To enable the study examine the contribution of non-bank financial institutions to economic growth in Nigeria, we assume functional relationship between the dependent and independent variables. The linear relationship between the dependent and independent variable in this study is functionally expressed as thus:

$Y = f(x)$

Y = Economic Growth (Dependent variable)

X = Non-bank financial institutions (Independent variable)

$Y = \alpha + \beta_1 X_1 + \beta_2\beta_2 + \mu$

Y= Gross Domestic Product (GDP)

X_1 = Treasury Bill

X_2 = Financial Assets

α = Intercept

$\beta_{1\text{-}2}$ = Slope of the linear equation

μ = Error term

4.0 Data Analysis and Interpretation
Secondary data that have been gathered for this research were empirically analyzed with the help of Ordinary Least Square (OLS) as presented below:

Table 1. Treasury bill, NBFI Financial Assets and Gross Domestic Product (GDP) 2010-2019

	Treasury Bill ₦ Million	**Financial Assets (NBFI) ₦ Million**	**Gross Domestic Product ₦ Million**
2010	413,716.7	113,781.6	789,503.3
2011	463,126.4	296,060.4	834,010.9
2012	495,321.5	304,553.4	888,893.1
2013	537,287.3	321,723.5	897,215.2
2014	601,182.1	391,819.2	953,017.3
2015	614,356.2	402,695.3	992,556.13
2016	636,443.6	420,874.4	999,463.45
2017	653,556.7	450,134.52	1,009,333.60
2018	701,343.6	551,002.49	1,110,266.96
2019	769,856.70	595,226.83	1,124,356.43
Source: Central Bank of Nigeria Statistical Bulletin various issues 2010 to 2019			

Table 2. Regression Result

Dependent Variable GDP				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
FA	0.106516	0.035130	3.032071	0.0045
TB	0.181118	0.083726	2.163230	0.0372
C	0.403265	0.083301	4.841047	0.0000
R-square	0.996735	Mean dependent var		5.548893
Adjusted R-squared	0.996462	S.D. dependent var		1.154871
S.E. of regression	0.068689	Akaike info criterion		-2.423818
Sum squared resid	0.169854	Schwarz criterion		-2.254930
Log likelihood	52.47636	F-statistic		3662.824
Durbin-Watson stat	1.966491	Prob (F-statistic)		0.000000
Source: Author's E-view output, 2022				

4.1 Results and Discussion of Finding

Regression result from table 2 shows that investment in financial assets (FA) and treasury bills (TB) by non-bank financial institutions in Nigeria had statistically significant effect on economic growth as (tc = 3.03207, 2.163230 for investment in financial assets (FA) and treasury bill (TB) respectively > t* = 2.000. These results are further strengthened with the (p-value = 0.0045 and 0.0372 for financial assets and treasury bill respectively < p* = 0.05. The positive sign indicates a direct relationship between financial assets and treasury bill. This suggest that non-bank financial institutions in Nigeria investment financial assets and treasury bills contribute to economic growth in Nigeria. This result is in line with the findings of Islam and Osman (2011) and that of Ugwunta and Ugwuanyi, (2019).

5.0 Conclusion and Recommendations

The study examined contribution of non-bank financial institutions to economic growth in Nigeria from 2010 to 2019. The empirical result shows that non-bank financial institutions investment in financial assets and treasury bills have positive and direct relationship with economic growth.

5.1 Conclusion

Findings from the study revealed that non-bank financial institutions investment in financial assets and treasury bills significantly impact on Nigeria's gross domestic product (GDP). It is therefore concluded by this study that non-bank financial institutions in Nigeria have positive and significant impact on economic growth of Nigeria. Findings in this study is in line with similar studies carried out by Islam and Osman (2011) and that of Ugwunta and Ugwuanyi, (2019).

5.2 Recommendations

Based on the findings of this study, the following recommendations are made:

1) Creation of an enabling environment to promote the rapid development of non-bank financial institutions in Nigerian in order to attract investors and improve the asset base of the non-bank financial institutions.
2) The reforms in the financial sector should be sustained so as to be able to channel more resources for investment and productive purposes by non-bank financial institutions in Nigeria.
3) Non-bank financial institutions should endeavour to diversify their products to make them more competitive and meeting demands for the present need of the economy.
4) Monetary authority in the country should formulate and implement policy on interest rate to ensure lower cost of borrow that would induce the desire for credit expansion thereby encouraging investment activities in Nigeria
5) Central Bank of Nigeria 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.

Conflicts of interest: There is no conflict of interest of any kind.

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