Unemployment Menace and the Fallacy of Microcredit Policy in Nigeria

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Abstract

This study examined the issue of unemployment and the impact of microfinance banks' credit facilities on its reduction for the period of 22 years between 1992 and 2014. The study employed secondary data obtained from Central Bank of Nigeria and National Bureau of Statistics. The data obtained was subjected to stationarity and cointegration tests with the use of Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests. Furthermore, ordinary least square regression was employed in analyzing the relationship between the dependent variable (unemployment rate) and the independent variables (microfinance banks' credit facilities, gross domestic product, interest rate and inflation). The outcomes of the study show that three independent variables (microfinance banks' credit facilities, interest rate and inflation) at 5% alpha level have significant impact on unemployment while gross domestic product was found not to have any significant impact on unemployment. The study concludes that credit facilities provided by microfinance banks do not actually go to deserving individuals or borrowers, thus, having no impact on reducing the menace of unemployment in the country. The study therefore recommends that the Central Bank of Nigeria re-evaluate the performances of the operating microfinance banks in order to ascertain the proportion of their loan portfolio that actually goes to the "unemployed but creative youths". In addition, the CBN must as a matter of urgency take necessary action in ensuring that loans granted by microfinance banks are serviced at a single digit interest rate as applied in countries like Kenya and Bangladesh. This is because employment generation and overall economic development can only be achieved when entrepreneurial youths can access credit facilities at affordable interest rate.

Keywords: unemployment, microcredit, interest rate, inflation, gross domestic product
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1.0 Introduction

In the world today, the position of Nigeria as a major global economic player cannot be underestimated. Specifically amongst black nations and Africa in particular, her role as the most populous country with a population of over 150 million people by 2006 census is of high significance. With an external reserve of over $34billion, nominal GDP of above $250.11 billion and per capita income of $1,401, it boasts of being the largest economy in Africa (CBN, 2014). Although, these figures appear impressive, they do not reflect the socio-economic status of the teaming young populace. A high level of unemployment is one of the critical socio-economic problems facing Nigeria. The labour force grows proportionally with the increasing population and as a result, employment growth is inadequate to absorb labour market entrants; hence, majority of the populace are faced with joblessness. Unemployment in Nigeria has its debilitating effects on the socio-economic and moral status of citizens, with huge reflections on the increasing level of poverty. The share of the total population living below the $1 a day threshold of 46 per cent is higher today than in the 1980s and 1990s despite significant improvements in the growth of GDP in recent years (Salami, 2011).

Unemployment in Nigeria has posed to be an incurable menace with increasing prevalence across the states of the federation. In fact, its aged-long dominance among the Nigerian youths has led to several other socio-economic problems such as kidnapping, insurgency, touting and armed robbery. According to Awogbenle and Iwuamadi (2010), Nigeria has a youth population of eighty million representing sixty percent of the total population of the country. Sixty four million of these youths are unemployed while one million six hundred thousand are under-employed. Hence, the issue of unemployment in Nigeria has become a household name and if not properly checked in earnest, it is capable of halting the continued existence of the nation.

In the past, several attempts had been made to dissect the issue of unemployment in Nigeria from different angles (Sanda, 2006; Salami, 2011; Kazi and Leonard, 2012; Dauda, 2013; Odia and Odia, 2013; Oludoyi, Agama and Olu, 2013; Ekanem and Emanghe, 2014. Many of these studies had looked at solving the menace of unemployment in Nigeria from the position of funds provided by commercial banks. However, there still remains a gap of examining the nature and impact of the relationship that exists between microcredit (as provided by the microfinance banks) and employment generation in Nigeria.

In light of the foregoing and coupled with the fact that unemployment has eaten deep into the Nigerian economy, this research work becomes imperative as it provides an avenue for all stakeholders in the fight against unemployment (policy makers/government, management and owners of microfinance institutions, employers of labour and the unemployed youths) to better understand the intricacies surrounding microcredit provision in Nigeria.

2.0 Literature Review

Both unemployment and microcredit are two distinct but globally linked terms; they have gained so much attention from several scholars and world leaders due to their potential economic consequences on a nation arising from the presence or absence of either term. For instance, in the midst of huge youth unemployment, a nation becomes highly susceptible to several social vices and security obstacles; particularly, if such nation has no provision for social palliatives that can

help alleviate severe hardship and frustration faced by the unemployed youths. On the other hand, if financial institutions provide microcredit to the unemployed youths at very affordable interest rate, many youths in Nigeria would have left the unproductive business of 'roaming the street' to engage in creative economic activities. Hence, the issues of unemployment and microcredit are inexhaustibly intertwined thereby deserving painstaking examination with robust focus. However, the concept of unemployment itself has been largely defined from a unique perspective but with several dimensions. Although, the thrust of all postulations attempted at defining unemployment suggests that it becomes economically justifiable to discuss the concept of unemployment in a nation only when there are no jobs for the willing and able-bodied job seekers. For instance, according to Briggs (1973), unemployment is the difference between the amounts of labour employed at current wage and working conditions and the amount of labour not hired at these levels. Fajana (2000) refers to unemployment as a situation where people who are willing and capable of working are unable to find suitable paid employment. Furthermore, Patterson, Price and Reich (2006) define unemployment as a situation whereby people who are willing to work at the prevailing wage rate are unable to find jobs.

The incidence of unemployment in Nigeria has become so devastating and pathetic; in fact, it has brought so much havoc and tension within the society. A clearer picture of its consequences is better understood when discussed from the angle of its dimensions. Thus, in order to establish the dimension and attending effects of unemployment that exists in an economy, economists have identified various forms of unemployment to include seasonal, frictional, structural or technological and cyclical or demand deficient. Elrenburg and Smith (1982) describe seasonal unemployment as the type of unemployment that occurs as a result of seasonal fluctuations. For instance, after the planting of agricultural seeds, there is usually a low demand for agricultural workers until the season for harvest. Also, in the field of civil engineering, demand for construction workers usually falls during the rainy season than in the dry season. The effect of this kind of seasonal unemployment is not always so severe on an economy. This is because majority of workers who are affected by seasonal fluctuations are the unskilled workers who can easily switch from one job to another.

Frictional unemployment exists when workers spend time searching for new jobs (Gbosi, 1998). That is, a situation which occurs within a period when people leave their jobs in search of another alternative job but such alternative jobs could not be easily accessed due to imperfect information about their location. Structural unemployment occurs when there is a decline in the output of an industry due to introduction of technology or decrease in the demand for skills of those workers. Solomon (1980) asserts that the issue of structural unemployment becomes prevalent as a result of increasing technological revolution with an unmatched level of skills possessed by individuals to meet the demands of the technology. Furthermore, some workers who are structurally unemployed do not have jobs because the industry in which they would have loved to work may be experiencing decline in output owing to inability of the industry to cope with global technology. Consequently, structurally unemployed workers are left with no alternative but to take underpaid jobs or resort to engaging in economic crimes as a result of frustration. Cyclical or demand deficient unemployment occurs when there is an inadequate level of aggregate demand. It is believed that a rational producer will always produce commodities in anticipation of demand. However, when aggregate demand for a particular commodity falls, then

the production of such commodity will be reduced and consequently, staff strength will be downsized.

According to Von (1991), the idea of microcredit came into being from the fact that unemployed persons and other poorer clients can be 'bankable', that is, they can repay both the principal and interest, on time and also make savings, provided financial services are tailored to suit their needs. Aghion and Morduch (2005) assert that one of the facilities rendered to customers by the microfinance includes the provision of microcredit in form of loans to the vulnerable unemployed youths with the purposes of poverty reduction and social change. Essentially, the core purpose for the establishment of microfinance is to create access to microcredit for the poor and unemployed who ordinarily are locked out of financial services in the formal financial market (Kpakol, 2005). Hence, three features distinguish microfinance from other formal financial products (Ogbunka, 2003) and these include the smallness of the loans advanced or savings collected, the absence of asset based collateral and simplicity of operations. With these salient features, accessing microcredit by the unemployed to start up a venture becomes attractive and encouraging, thus providing an avenue to become self sustaining rather than roaming the streets to search for jobs.

According to a report by World Bank (2000), three key objectives are to be achieved when nations fully integrate into the microfinance policy structures; these are: creation of employment and income opportunities through the creation and expansion of micro enterprises, increase in the productivity and income of vulnerable groups, especially women and the poor and reduction of rural families dependence on drought prone crops through diversification of their income generating activity. Consequently, in the same year, the World Bank met with the Nigerian government on the issue of microfinance framework and recommended that the Central Bank of Nigeria take up the responsibility of developing an appropriate policy, as well as regulatory and supervisory framework for the operation of these institutions. In 2001, the CBN responded to this recommendation by conducting a baseline survey of microfinance institutions. Constraints were identified while suggestions and recommendations were hugely harnessed; consequent upon the growing tide of unemployment and the need for the CBN to mitigate its embarrassing effect on the nation, in 2005, the microfinance policy framework was drafted and became fully implemented thereafter.

2.1 Theoretical Framework

For the purpose of this study, the theory of effective demand, classical economic theory and the Phillips curve theory are adopted.

2.1.1 Theory of Effective Demand

Keynes (1936), while discussing the general theory of employment, interest and money, developed the theory of effective demand. In his opinion, unemployment was basically cyclical and involuntary arising from the deficiency of aggregate demand in a particular industry. Cyclical unemployment as discussed earlier on can also be referred to as demand deficient unemployment and it occurs when there is an inadequate level of aggregate demand. Keynes postulated that profit seeking enterprises employ and invest hugely in labour in order to produce commodities (output); thus, favourable or optimistic profits would be made when production

meets market demand. He further asserted that if expectations about the future were supported by the economic reality, investments would be increasing such that employment will continue to rise until the equilibrium condition is reached. In other words, unemployment is a consequence of a fall in aggregate demand particularly when investment expenditure is reduced. The theory of effective demand is adopted in this study by using Gross Domestic Product (GDP) as its proxy, thus, measuring its effect on employment generation in Nigeria. The reason for this is simply because GDP measures the total monetary value of goods and services produced within the country in a particular period. By implication, its adoption in this paper suggests that if a country's GDP increases overtime, there seemingly exists a greater effective demand in the market, resulting to increase in investment expenditure either by expansion or diversification and thus, labour would be employed.

2.1.2 Classical Economic Theory

Another perspective to the concept of unemployment is the classical theory as espoused by Pigou (1933) and Solow (1981). They both equally argue that labour market is a composition of demand and supply of labour. In fact, they assert that demand for labour in the market is a derived demand; derived demand is a demand for a factor of production or intermediate good arising from the demand for another intermediate or final good. Hence, labour would be in demand if the marginal product of a particular labour is increasing; implying that a persistent increase in the output of labour arising from product demand in the market will spur the demand for more labour. However, the demand for labour has a negative relationship with real wages of labour; that is, if wages of labour increase, the quantity demand for labour will decline in a capitalist market. In another perspective, Wicksell (1893) asserts that that if wages are sufficiently flexible downward, full employment can be maintained. Full employment according to Keynes (1936) is not a total absence of unemployment; rather, it suggests that at full employment level, a nation only experiences frictional unemployment; that is unemployment arising in a period where one switches from one job to another. Hence, to maintain full employment, wages must sufficiently go downward in a flexible manner. Achieving this however requires that cheaper credit must be given to businessmen by banks (Wicksell, 1893). When enterprises get credits from banks at cheaper rates, investments will be encouraged and thus jobs will be created. In line with the explanations above, this study therefore finds the classical theory of unemployment pertinent, particularly with regards to the effect of aggregate microcredit and interest rates on employment generation in Nigeria.

2.1.3 Phillips Curve

The Phillips curve is used to explain the historical inverse relationship that exists between unemployment and inflation. The theory sprang up as a cross-sectional study conducted by Phillips in the United Kingdom, and Samuelson and Solow in the United States of America in 1960. Their separate studies revealed that a negative relationship exists between unemployment and inflation. That is, decreased unemployment (increase in employment) in an economy will correlate with higher rates of inflation for such economy. The Phillips curve has faced realistic criticisms from economic experts. For instance, Friedman (1968) argued that the Phillips curve relationship was only a short-run phenomenon. He argued that over the longer-run, there is no trade off between inflation and unemployment as there would be a case of stagflation as experienced in some countries where inflation and unemployment were concurrently increasing

over a long period of time. This study therefore adopts the Phillips curve theory by measuring the impact of inflation (among other variables mentioned above) on employment generation in Nigeria.

2.2 Empirical Evidences

Several studies in the past had been carried out to examine the linkage between finance and employment generation; and by extension the effect of unemployment on an economy. This section of the study therefore attempts to review some of these past studies carried out within and outside Nigeria.

Gatti and Vaubourg (2009) studied the interaction between financial and labour markets using data for 18 OECD countries over the period 1980-2004. The study investigated how labour and financial factors interact to determine unemployment. It was revealed that impact of financial variables depends strongly on the labour market context. In fact, the report of the study proved that increased market capitalization as well decreased banking concentration reduce unemployment if the level of labour market regulation, union density and coordination in wage bargaining is low. Also, it was concluded that increasing intermediated credit worsens unemployment when the labour market is weakly regulated and coordinated and thus recommended that a greater care must be taken by government when embarking on deregulation policies because their effects in most countries are not linear.

Choudhry, Marelli and Signorelli (2010) studied the impact of financial crises on youth unemployment rate across several countries of the world. Using about 70 countries around the world according to their stratified income levels, different types of financial crises such as systemic banking crises, non systemic banking crises, currency crises and debt crises were analyzed; thus, employing fixed effects panel estimation for the period 1980-2005. The results of the study showed that financial crises have an impact on the youth unemployment rate and that this impact on youth unemployment rate is greater than the effect on overall unemployment. Furthermore, the study found that financial crises affect the youth unemployment rate for almost five years after the onset of the crisis, however, the most adverse effects are found in the second and third year after the financial crisis. It was therefore recommended that effective active labour market policies and better school to work transition institutions are particularly implemented to reduce the risk of structural unemployment in an economy.

Kazi and Leonard (2012) examined the role of microfinance banks in curbing the incidence of poverty and youth unemployment in Nigeria. The study acknowledged that poverty has become a perennial curse for nations around the world and thus violates the basic norm of societal civilization. Secondary data between 1995 and 2011 were used in the study and a regression analytical approach was used to estimate the influence of microfinance variables on unemployment rate. The outcome of the study revealed that microfinance loans in Nigeria were increasing but only provided to the wrong people; thus, that which should eliminate poverty and reduce youth unemployment increases it. The study therefore recommended that a proper operational model was urgently required in order to ensure an effective functioning of the microfinance banks with a view to reducing poverty and unemployment.

Oludoyi etal (2013) examined the employment generation in Nigeria from the angle of financing. The study sought to establish linkages among unemployment, GDP, inflation, money supply and lending rate. Using secondary data covering 1984 to 2011, the regression result of the study showed that unemployment was positively related to GDP, although not statistically significant at any level. Furthermore, the study revealed that inflation was negatively related to unemployment but with no statistical significance. Also, lending rate as espoused by the study had no long run relationship with the unemployment while broad money and unemployment were found to be positively statistically significant. The study thus recommended that the federal government and the monetary authorities formulate favourable policies capable of encouraging investors to have access to loanable funds in order to boost their output and by implication create employment for the youths in the country.

Dauda (2013) examined the effects of microfinance and poverty on employment gender gap in Nigeria between 1992 and 2011. Also, the study went further to determine whether microfinance has helped to improve standard of living of customers. Both secondary and primary data were used to elicit information and an econometric analytic technique was used to analyze data obtained. The outcome of the study showed that poverty in Nigeria is severe and requires urgent attention. The study also revealed that low income earners derived the least benefits from microfinance banks' operations in Nigeria; thus, a change in poverty rate influences employment level in Nigeria. It was therefore recommended that governments needs to be more proactive and make conscious efforts to use microfinance as an effective policy instrument to eliminate poverty and narrow unemployment gap in order to promote inclusive growth in Nigeria.

Bump, Levkov and Garriga (2014) identified various financing constraints that impede employment generation in the United States by exploiting the differential financing needs across industrial sectors during the great recession. The study showed that financing constraints among small businesses in the United States are one of the drivers explaining the unemployment dynamics during the great recession. It further found that credit constraints by small and large firms contributed significantly towards the increase in unemployment level in the United States, especially during the great recession when loan supply was reduced by banks. The study thus recommended that policies aimed at making credit available to small firms, would help stabilize labour markets and economic activities.

Ekanem and Emanghe (2014) examined the interplay of entrepreneurship education and urgent social intervention in order to reduce unemployment incidence in Nigeria. Secondary data obtained from National Bureau of Statistics was used in the study and data were analyzed with simple descriptive statistics and tables. Results of the study revealed that there exists a high rate of unemployment and low level of entrepreneurship education amongst youths in Nigeria. The study therefore recommended that policymakers should emphasize entrepreneurship education at all levels of education while investment in public goods should be increased by government in order to create job opportunities for the youths.

A critical look at the above studies suggests that the issue of unemployment is a global phenomenon that deserves urgent actions and efforts from all stakeholders in order to stem its devastating consequences. More so, the above review also shows that studies conducted on

unemployment and finance in Nigeria were examined up till 2011 with many focusing on the angle of commercial bank financing, thus, creating a need for this present study which seeks to expand the scope by examining the interplay between microcredit (as provided by microfinance banks) and unemployment rate up till 2014.

3.0 Methodology

This study seeks to determine the impact of microcredit provided by microfinance banks on the reduction of unemployment in Nigeria. The study adapted the model of Kazi and Leonard (2013) which measured the relationship amongst microfinance banks, unemployment and poverty in Nigeria from the period between 1995 and 2011. In their study, Nigerian youth unemployment rate was used as the dependent variable while credit provided by MFBs, GDP and poverty rate were used as independent variables. However, for the purpose of this study, unemployment rate was used as the dependent variable while Gross Domestic Product (GDP), credit provided by MFBs, interest rate and inflation rate served as the independent variables.

Secondary data sourced from the Central Bank of Nigeria's Annual Statistical Bulletin and National Bureau of Statistics was used for the study. Due to the paucity of data, the study could only cover the period 1992-2014. Year 1992 was chosen as the base year since available data on the Central Bank of Nigeria website as regards microfinance activities emanate from 1992 while 2014 was also adopted as it is the penultimate year of this study. The classical linear regression analysis of the ordinary least square (OLS) is the estimation technique employed to determine the impact of the independent variables (Gross Domestic Product (GDP), credit provided by MFBs, interest rate and inflation) on the dependent variable (unemployment rate). Also, the natural logarithm model was used to take care of possible outliers in some of the variables and for proper interpretation of the coefficients of the variables with regard to the elasticity and/or of growth rates. For instance, the credit provided by the MFBs and GDP ran into millions and billions of naira respectively overtime while other variables remained in double digit, thus, there was need to ensure all the variables were in equal form. The model in functional form is stated as:

$$UNEMP = F(GDP, MCR, INT, INF) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (1)$$

Where;
UNEMP represents unemployment rate; GDP implies gross domestic product; MCR is the credit provided by microfinance banks; INT implies interest rate which for the purpose of this study is the monetary policy rate; INF represents inflation rate. Equation (1) above can be written in econometric form using natural logarithm as:

$$\ln UNEMP_t = b_0 + b_1 \ln GDP_t + b_2 \ln MCR_t + b_3 \ln INT_t + b_4 \ln INF_t + \varepsilon_t \ldots\ldots\ldots\ldots\ldots\ldots (2)$$

Where b_1, b_2, b_3, b_4 stand for coefficients of independent variables and ε_t represents error term in period t

4.0 Results Presentation and Discussion of Findings

This section of the study discusses the preliminary diagnostic tests of data, the regression model estimates and the findings.

4.1 Preliminary Diagnostic test of data

Due to the nature of data obtained (time series) for this study, some preliminary tests were carried out in order to ascertain the suitability of the regression analysis. This was done in order to ensure that the model used for the study generates estimates (results) that are *BLUE*; that is Best, Linear and Unbiased Estimates. Also, in a bid to conform with one of the assumptions of classical linear regression model which requires the absence of autocorrelation, the Durbin-Watson output was checked to determine the existence or otherwise of serial or auto correlation in the error terms of the model used. Hence, it was conducted in order to ensure that the error term of the current year is not related or influenced by that of the preceding year.

In addition to the above, the Augmented Dickey-Fuller (ADF) and Phillips Perron (PP) stationarity tests were conducted to ensure that variables used for the study are stationary. In other words, the ADF and PP statistics for all variables should be negative and the null hypothesis of non-stationarity is rejected if the computed t (tau) statistic is more negative than the critical value at any particular point in time. Although, stationarity of variables is not an end in itself; also required is the fact that time series variables must be co-integrated. This is to avoid the production of unreliable results that may emanate when one time series variable is regressed on another. The Granger causality test was also conducted to determine whether or not there exists a unidirectional or bidirectional relationship between each pair of variables and finally, the ordinary least square (OLS) estimate of the variables was conducted.

Table 1: Correlation Matrix of Variables

	UNEMP	GDP	MCR	INT	INF
UNEMP	1.000000	0.673627	0.689832	-0.499875	-0.577389
GDP	0.673627	1.000000	0.754284	-0.630016	-0.642880
MCR	0.689832	0.754284	1.000000	-0.669963	-0.587039
INT	-0.499875	-0.630016	-0.669963	1.000000	0.423033
INF	-0.577389	-0.642880	-0.587039	0.423033	1.000000

Source: Authors' computation (2015).
** 5% level of significance

Table 1 above shows the result of the multi-collinearity test. This test indicates whether there is an almost perfect relationship among the independent variables and this occurs when any variable has a correlation coefficient of almost 1 with other variables. A diagonal look at the table shows that no variable exhibits this feature with any of the other variables. In other words, the classical linear regression assumption of no multi-collinearity was met.

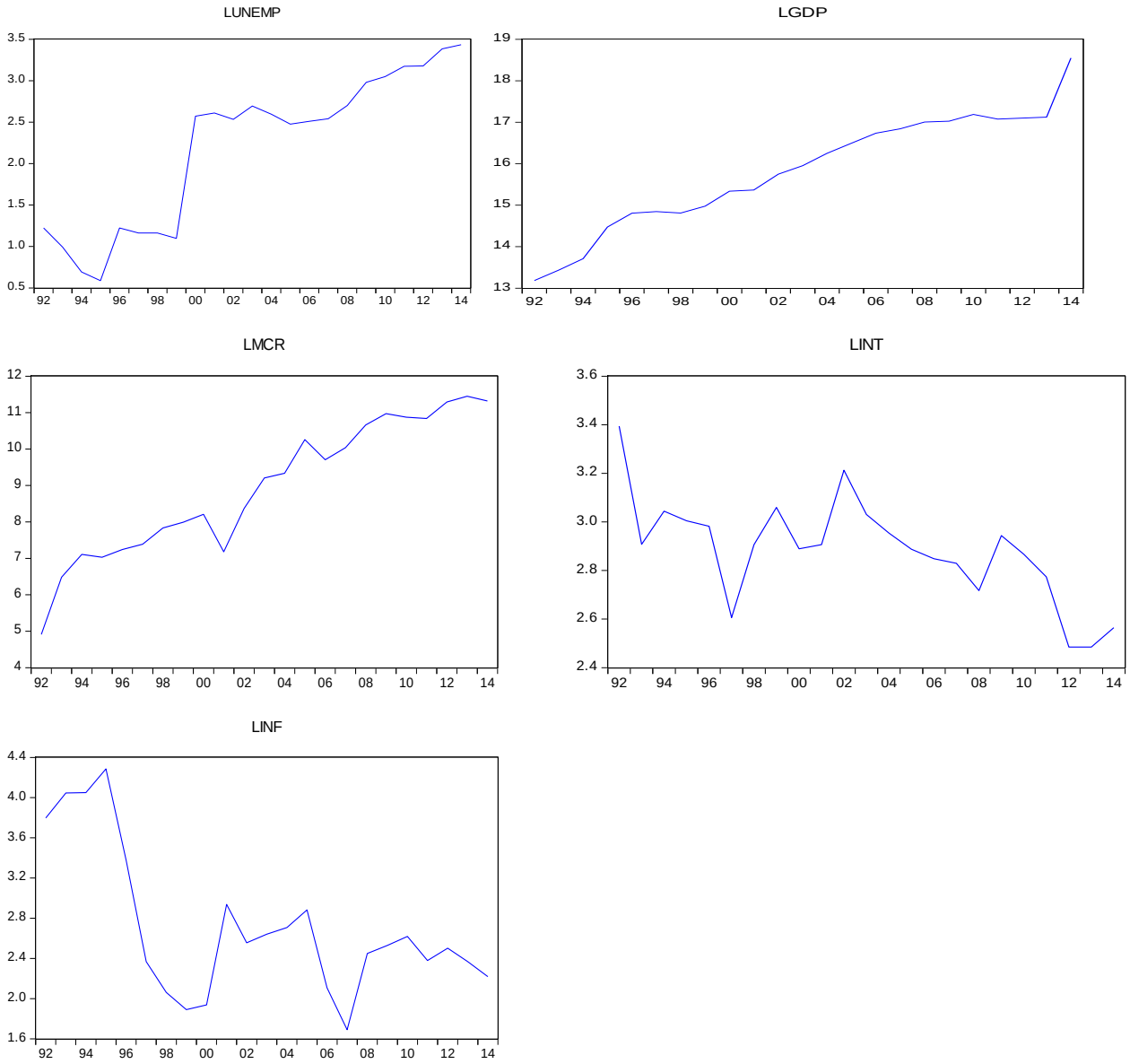

Figure 1: Trend Graph of the Variables

From figure 1 above, the graphs of unemployment, gross domestic product and credit provided by microfinance banks suggest a trend. Therefore, the Augmented Dickey-Fuller and Phillips-Perron tests were conducted to check for stationarity and order of integration of the variables.

Table 2: Unit root Test using Augmented Dickey-Fuller and Phillips-Perron Stationarity test

	ADF statistics (Trend and Intercept)			PP (Trend and Intercept)		
Variables	**Level**	**1st Difference**	**Order of Integration**	**Level**	**1st Difference**	**Order of Integration**
UNEMP (Prob. value)	-2.639 0.2680	-4.694 0.0063**	I (1)	-2.639 0.2680	-5.153 0.0025**	I (1)
GDP (Prob. value)	-2.624 0.274	-5.524187 0.0007**	I (1)	-2.572 0.2947	-2.062 0.0040**	I (1)
MCR (Prob. value)	-4.233 0.0153**	-5.648 0.0009**	I (0)	-4.233 0.0153**	-9.493 0.0000**	I (0)
INT (Prob. value)	-3.849 0.0329**	-4.722 0.0064**	I (0)	-3.849 0.0329**	-16.9006 0.0000**	I (0)
INF (Prob. value)	-2.565 0.2976	-3.980 0.0263**	I (1)	-1.9367 0.6018	-3.9785 0.0264**	I (1)

Source: Authors' computation (2015).
** 5% level of significance

Table 2 above shows that unemployment, gross domestic product and inflation were not stationary at level for both Augmented Dickey-Fuller and Phillips-Perron Stationarity tests. They were however differenced once before they became stationary and therefore integrated at order one. Credit provided by microfinance banks and interest rate were integrated at order zero as they were stationary at all levels. Hence, at 5% level of significance, the hypothesis of non-stationarity is therefore rejected as the variables were either stationary at level or first difference.

Table 3: Cointegration Test of Variables

Trace Test statistic				Maximum eigen test statistic			
Ho	Hi	Statistic	95% critical value	Ho	Hi	Statistic	95% critical value
r = 0	r = 1	105.6794**	69.8189	r = 0	r = 1	39.8609**	33.8769
r ≤ = 1	r = 2	65.8185**	47.8561	r ≤ = 1	r = 2	35.2047**	27.5843
r ≤ = 2	r = 3	30.6138**	29.7971	r ≤ = 2	r = 3	21.4837**	21.1316
r ≤ = 3	r = 4	9.1302	15.4947	r ≤ = 3	r = 4	9.0709	14.2646
r ≤ = 4	r = 5	0.0593	3.8415	r ≤ = 4	r = 5	0.0593	3.8415

Source: Authors' computation (2015).
** 5% level of significance

Table 3 above reveals the summary of the cointegration test using Johansen trace statistic and the maximum eigenvalue. Trace statistic and Max-eigenvalue tests indicate three cointegrating equations at 0.05 levels. From the table above, the trace statistic and eigenvalue of the three equations are greater than the critical values at 0.05 levels, thus confirming that there exists a long run relationship among the variables.

Table 4: Regression Result

Dependent Variable: lnUNEMP
Method: Least Squares
Date: 10/09/15 Time: 05:23
Sample: 1992 2014
Included observations: 23

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-9.020681	3.407037	-2.647662	0.0164
lnGDP	0.122265	0.947601	0.129025	0.0839
lnMCR	0.021776**	0.018313	1.189100	0.0211
lnINT	0.475126**	0.165271	2.874840	0.0070
lnINF	-0.013163**	0.035591	-0.369903	0.0344

R-squared	0.805367	Mean dependent var	2.199227
Adjusted R-squared	0.762115	S.D. dependent var	0.932154
S.E. of regression	0.454644	Akaike info criterion	1.451055
Sum squared resid	3.720619	Schwarz criterion	1.697902
Log likelihood	-11.68714	Hannan-Quinn criter.	1.513137
F-statistic	18.62039	Durbin-Watson stat	1.056904
Prob(F-statistic)	0.000003		

Source: Authors' computation (2015).
** 5% level of significance

The result from table 4 shows that the coefficients of gross domestic product, microfinance credit and interest rate are positively signed while that of inflation is negatively signed. The coefficient of GDP (0.122265) shows that a percentage increase in Gross Domestic Product will bring about 12 percent increase in unemployment; although, this was found not to be statistically significant at any level. This finding is consistent with those of Oludoyi *etal* (2013) and Kazi and Leonard (2012) who also found positive but insignificant relationship between GDP and unemployment. Also, the coefficient of credit provided by microfinance banks (MCR) (0.021776) shows that a percentage increase in this credit will increase unemployment by about 2 percent as shown in table 4. This result indicates that credit provided by microfinance banks has not helped in reducing the menace of unemployment; rather, it has in fact, exacerbated the situation as shown from the results in table 4. Furthermore, the result was found to be statistically significantly and conforms to the previous finding of Kazi and Leonard (2012) who also found significantly positive relationship between unemployment and microfinance banks' credit facilities. The implication of this finding is that credit facilities provided by microfinance banks have not actually gone to the deserving individuals. In fact, these facilities which are technically meant to help in addressing the issue of unemployment have only worsened it; thus, in a practical sense, the adoption of microfinance banks as a strategy for reducing unemployment in Nigeria is just a fallacy.

The coefficient of interest rate (0.475126) was found to be statistically significant at 5 percent alpha level. This result indicates that a percentage increase in interest rate will result to about 48% increase in unemployment rate in Nigeria. This result apparently conforms to the a priori

expectation because when interest rate (specifically MPR) increases in the country, banks lending rate will also increase and this adversely affects the demand for loan by potential borrowers or investors. Hence, as a result of huge cost of borrowing, investment drive in the economy is stiffened and thus, new jobs are not likely to be created for the unemployed youths. Also, the coefficient of inflation rate (-0.013163) was found to be statistically significant at 5 percent alpha level. The estimate shows that if inflation rate increases by a percentage, unemployment rate will fall by equally 1 percent. This result is in conformity with the Phillips curve theory which explains the inverse relationship that exists between unemployment and inflation. The theory reveals that a high inflation rate in an economy leads to low level of unemployment for such economy. This is because in the face of economic growth, inflation occurs, which in turn should lead to more jobs and less unemployment. This finding further conforms to the finding of Oludoyi *etal* (2013) who also found a negative relationship between inflation and unemployment. The explanatory powers of the model in table 4 are relatively substantial. With coefficient of determination (R^2) being 0.81, it indicates that the explanatory variables substantially account for 80 percent of the variation in unemployment rate while the probability value of the F-statistic was also found to be significant at 5percent level of significance. The adjusted R squared (0.762115) measures the degree of relationship if the basic population of the variables were to be used. That is, it gives the percentage of variation explained by only those independent variables that in reality affect the dependent variable.

Table 5: Pairwise Granger Causality Tests

Date: 10/09/15 Time: 05:43
Sample: 1992 2014
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
GDP does not Granger Cause UNEMP	21	2.42931	0.1199
UNEMP does not Granger Cause GDP		0.89711	0.4273
MCR does not Granger Cause UNEMP	21	1.80331	0.0367
UNEMP does not Granger Cause MCR		12.9333	0.0005
INT does not Granger Cause UNEMP	21	0.71120	0.0509
UNEMP does not Granger Cause INT		0.80410	0.0148
INF does not Granger Cause UNEMP	21	2.61384	0.0442
UNEMP does not Granger Cause INF		0.45363	0.0352
MCR does not Granger Cause GDP	21	2.15636	0.1482
GDP does not Granger Cause MCR		3.20372	0.0676
INT does not Granger Cause LGDP	21	2.63759	0.0023
GDP does not Granger Cause INT		1.76309	0.2032
INF does not Granger Cause GDP	21	0.45918	0.6399
GDP does not Granger Cause INF		0.84988	0.4459
INT does not Granger Cause MCR	21	0.04179	0.9592
MCR does not Granger Cause INT		2.53589	0.1105
INF does not Granger Cause MCR	21	0.06096	0.9411
MCR does not Granger Cause INF		1.81420	0.1949
INF does not Granger Cause INT	21	1.93363	0.0270
INT does not Granger Cause INF		0.86829	0.0085

Table 5 above shows the result of the Pair-wise granger causality. The results show that not all paired variables have a directional relationship. For instance, the null hypothesis of no directional relationship between gross domestic product and unemployment was accepted implying that the two variables have no causal relationship in the long run at 5% level of significance. Other variables found not to have any directional relationship at 5% level of significance also include: microfinance banks' credit facilities and gross domestic product; inflation and gross domestic product; interest rate and microfinance banks' credit facilities; inflation and microfinance banks' credit facilities. However, some variables were found to have uni-directional relationship. For instance, interest rate was found to granger cause gross domestic product while gross domestic product does not impact on interest rate in the long run. Furthermore, the null hypothesis of no mutual relationship is rejected for some variables as they show to have bi-directional relationship in the long run at 5% alpha level. These variables include microfinance banks' credit and unemployment; inflation and unemployment; inflation

and interest rate. This implies that they both have long run impact on each other at 5 percent alpha level.

5.0 Conclusion and Recommendations

This study examined the nature and impact of microcredit on employment generation in Nigeria. The outcomes of the study show that three independent variables (microfinance banks' credit facilities, interest rate and inflation) at 5% alpha level have significant impact on unemployment while gross domestic product was found not to have any significant impact on unemployment. The coefficient of microcredit failed to meet a priori expectation of negative relationship as it was shown that microcredit provided by microfinance banks has a significant positive relationship with unemployment. It can therefore be concluded that credit facilities provided by microfinance banks do not actually go to deserving individuals or borrowers, thus, having no impact on reducing the menace of unemployment in the country. No nation can thrive, reduce its youth unemployment or achieve economic development when its financial system creates burden on borrowers through interest rate

The study therefore recommends that (i) the Central Bank of Nigeria re-evaluate the performances of the operating microfinance banks in order to ascertain the proportion of their loan portfolio that actually goes to the "unemployed but creative youths"; and (ii) in addition, the CBN must as a matter of urgency take necessary action in ensuring that loans granted by microfinance banks are serviced at a single digit interest rate.

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