

IMPACT OF MONETARY POLICY ON DEVELOPMENT FINANCE INSTITUTIONS IN NIGERIA

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Abstract

Development Finance Institutions (DFIs) in Nigeria play a key role in funding priority sectors of the economy such as agriculture, infrastructure, and small business, but their performance is hampered by monetary policy, which influences credit flows, the cost of funds, and the level of liquidity. This study examines the impact of monetary policy on the performance of DFIs in Nigeria from 2008 to 2023. Annual time series data from the Central Bank of Nigeria were taken into account using the Autoregressive Distributed Lag (ARDL) method to model short-run and long-run dynamics. Results show that monetary policy rate, cash reserve ratio, and inflation have positive but statistically insignificant effects on DFIs in the short run, while open market operations significantly negatively affect their performance. The error correction term confirms adjustment towards stability at a rate of 33% per period, while the bounds test reveals no long-run equilibrium between monetary policy variables and DFIs. The study concludes that DFIs are vulnerable to short-term financial fluctuation, requiring balanced policies, greater collaboration, and institutional strength to fulfil their developmental role.

Keywords: Development Finance Institutions, Open Market Operations, Monetary Policy Rate, Cash Reserve Ratio

Introduction

In the majority of developing economies, there have been established specialized financial institutions to fill investment gaps which commercial banks usually overlook. Such institutions are known as development finance institutions (DFIs) and are tasked with mobilising funds into strategic sectors such as agriculture, infrastructure, housing, and small and medium enterprises. By leveraging sectors key to long-term growth but less attractive to profit-seeking commercial banks, they propel structural change and inclusive development. Their own performance, however, is not only dependent on their own internal ability but also on the broader economic and financial circumstances in which they are operating (OECD, n.d.).

The macroeconomic policies determining credit flows, cost of funding, and financial market stability shape the terms under which DFIs are operating. Among these policies, monetary policy is particularly vital as it directly influences liquidity, interest rates, and inflation. Policy stance shifts, whether accommodative or restrictive, affect the financial environment in ways that strengthen or constrain DFIs operations. The appreciation of this relationship is thus necessary to assess how effective DFIs can become in mobilising and allocating resources towards development and change (Léon, 2025).

As financial situations tighten up, borrowing is costlier and liquidity evaporates, making it difficult for DFIs to access cheap funds. This confines them to provide concession loans to priority sectors, thereby their developmental impact. The worst affected sectors including agriculture, housing, and small-scale industries, are highly sensitive to the cost of finance, and fading credit can slow down investments. On the other hand, an accommodative policy mix of lower interest rates and liquidity guarantees increased lending by DFIs to realize their development agenda more effectively (Boissay et al., 2025; Sebasore et al., 2025; IMF, 2005).

Effects of monetary measures also get reflected in overall macroeconomic stability, particularly inflation and exchange rate situation. Long-term investments by DFIs remain highly vulnerable to inflationary pressures since high inflation reduces the real value of repayments and renders projects unviable. Instability in exchange rates generates additional risks, especially to institutions that are reliant upon external borrowing or concessionary foreign financing. Good monetary management creating a sound macroeconomic environment thus provides a better foundation for DFIs to operate and continue their growth contributions (Shapiro, 2022).

Availability of credit in the financial system is also another major channel through which monetary policy affects DFIs. In times of tight money, commercial banks typically respond by rationing credit, with emphasis on low-risk short-term credit over high-risk long-term activities. This widens the gap in finance for development-oriented investment, making them dependent on DFIs to fill the gap (Modugu & Dempere, 2022). However, being constrained in their resources, this added burden can strain their operational capacity.

On the contrary, accommodative money conditions support the ability of DFIs to access domestic and foreign funds. Improved access to low-cost financing strengthens their ability to support long-gestation investments such as infrastructure and industrial development crucial for structural transformation. In its impact to raise the affordability and reach of lending, accommodative policies maximize DFIs' contribution as facilitators of sustainable and inclusive economic growth (IMF, 2005). The central challenge for DFIs is balancing financial sustainability with developmental intent. Contractionary monetary conditions increase the cost of doing business and reduce the ability to lend, thereby making it difficult to fulfil both mandates simultaneously. Expansionary monetary conditions, by contrast, increase compatibility between financial sustainability and developmental impacts. This highlights the imperative for synchronization among macroeconomic management and development lending in an effort to attain optimal institutional performance.

Examining the interlinkages among DFIs and monetary policy is thus important for policymakers as well as researchers. Since these institutions are charged with the provision of finance for investments that spearhead structural transformation, their performance cannot be separated from the monetary regime in which they exist. Better insights into this nexus lead to valuable lessons in the formulation of policies designed to maintain macroeconomic stability as well as fortifying the operations of DFIs in providing sustainable growth and development.

The remaining part of this paper is organized as follows: section two discusses an overview of the prevailing conceptual, theoretical, and empirical observations regarding monetary policy and DFIs. Section three presents the methodology of research, data, analytical method, and model specification. Section four presents and discusses the empirical findings, and Section five concludes with policy implications.

Literature Review

Conceptual Review

Monetary policy has been described as the conscious action of the monetary authorities, or primarily the central bank, to regulate the supply, availability, and price of money in an economy with the aim of achieving some economic objectives (CBN, 2016). Monetary policy is described by Chinweoke (2005) as a conscious action by monetary authorities aimed at modifying

the supply, price, and flow of money and credit in an economy. Similarly, Anyanwu (1993) views it as the conscious efforts of the central bank to manage the supply of money and credit conditions in the realization of key macroeconomic targets. Ahuja (2011) emphasizes that monetary policy consists of actions for managing the supply of money as well as the price and quantity of credit in the economy, while Jhinghan (2009) views it as the set of credit management instruments employed by a nation's central bank.

Monetary policy has, over time, been placed among the most vital instruments for stabilising and guiding the national economy. It is reported to be the intentional regulation of the availability of money and credit by the central bank with a view to achieving objectives such as price stability, growth, and employment creation (Central Bank of Nigeria [CBN], 2012; IISTE, 2015). This makes it a central target of macroeconomic management in both developed and developing economies, affecting such as investment, consumption, and inflation. These goals are attained using a mix of policy tools by the central bank. Some of them include bank rate, open market operations, reserve requirements, special deposits placements, policy directives (moral suasion), and other funding instruments (Chinweoke, 2005). Similarly, Okafor and Obasi (2011) state open market operations, reserve ratios, bank rate, liquidity requirements, selective credit controls, and moral suasion as key monetary policy instruments.

According to the CBN (2016), monetary policy is generally categorized into two wide categories: expansionary and contractionary. Expansionary policy seeks to boost growth via an increase in money supply coupled with a decline in interest rates, thereby encouraging borrowing and investment. Contractionary policy seeks to curb inflation via a reduction in money supply and an increase in interest rates, thereby making borrowing costly. Both tools have been widely applied in Nigeria, subject to economic circumstances. Research also makes a distinction between quantitative and qualitative monetary policy tools. Quantitative tools are general in scope and include open market operations, the cash reserve requirement, and the discount rate, which influence the overall supply of credit in the economy (CBN, 2016; CBN, 2012). Qualitative tools are special measures that target directing credit into key sectors such as agriculture, industry, and small-scale enterprises. Such two-tiered framework illustrates how central banks combine wide-ranging and focused measures to enhance policy efficacy.

Central banks in modern economies have also expanded their objectives from promoting growth and inflation to financial system stability. New instruments such as quantitative easing, forward guidance, and macroprudential policy are commonly applied to stabilize crisis-hit markets while facilitating long-term growth (CBN, 2016). This evolution denotes the adaptive nature of monetary policy in adjusting to new challenges and evolving economic conditions. Development finance institutions (DFIs) are institutions, often supported by governments or multilateral organizations, that provide finance and assistance for business ventures in emerging markets (Attridge & Engen, 2019). According to Marbuah et al. (2022), they also appear as bilateral, regional, or multilateral financial institutions that invest in private sector firms with the broader mission of advancing developmental ends.

Specialized development banks or their subsidiaries are often established to promote private sector growth in developing nations. These banks are often owned by the government and obtain funds from national or international development resources, frequently backed by government guarantees. Such backing provides them with the high credit rating they require in order to leverage huge resources from international capital markets and provide finance on very concessionary terms (OECD, n.d.). DFIs may be established at the national or can operate internationally. Those belonging to a single state are called unilateral DFIs, while those that belong to several states are multilateral DFIs (Léon, 2025). In order to fulfil their mandate, DFIs extend aid through instruments such as loans, guarantees, and equity financing to the public and private sectors. Their objective is to fill investment gaps in emerging markets while promoting inclusive

growth and sustainable development, while at the same time remaining their own long-term financial sustainability (Dalberg, 2010).

Theoretical Review

Keynes's Liquidity Preference Theory (LPT) of 1936 is an interest rate theory of determination founded on the nexus between money supply and liquidity demand. As compared to the classical school that associated interest rates with investment and savings, Keynes assumed that money is held for transactional, precautionary, and speculative purposes. As such, when central banks change the supply of money, interest rates respond accordingly, depending on cost of borrowing and level of investment. This model still sees use in describing the effects of monetary policy decisions on credit distribution, particularly in economies undertaking long-term development as well as structural transformation (Ehinomen & Akorah, 2012).

The theory has a strong impact on Development Finance Institutions (DFIs), which depend on low-cost long-term funding to support projects in agriculture, infrastructure, and small enterprise. Contractionary monetary policy, through high interest rates, increases the cost of funds and discourages investors from putting capital into development finance. Such an effect is in line with precautionary and speculative demand for money since investors prefer holding liquid assets during uncertainty rather than participating in long-term lending. As Tchamyu (2020) attests, tight monetary conditions crowd out finance institution's ability to mobilize resources, thus weakening their development mandate. Conversely, accommodative liquidity conditions enhance DFIs' effectiveness in inclusive growth promotion (Fowowe & Folarin, 2019).

Keynes's insights on liquidity traps also highlight the challenges of promoting credit flow under conditions of very low interest rates or high uncertainty. Central bank money expansion can be reversed by persistent risk aversion, which can limit lending to DFIs and undo their role as financial intermediaries (Eggertsson et al., 2020). Contemporary post-Keynesian studies continue this analysis by concentrating on the predominance of endogenous money creation, placing DFIs at the center of developing economies' liquidity cycle (Lavoie & Reissl, 2019). In general, LPT provides a robust theoretical framework for studying how monetary policy, through its effect on money supply and interest rates, informs DFIs' functional capability to provide sustainable development results.

Empirical Review

Empirical work in research has examined the functions that monetary policy and development finance institutions (DFIs) perform in influencing sectoral performance, mobilising investment, and catalysing economic growth in different settings. The study focuses on the extent to which DFIs replace or complement broader macroeconomic policy, particularly monetary policy, in their quest for developmental objectives. Iwegbu and Nwaogwugwu (2022) analyse the impact of monetary policy stance and DFIs on the performance of the agricultural sector in Nigeria for 1981-2019 using the ARDL model. As per their research, monetary policy speeds up agricultural activities in the short run but cannot sustain to cause long-run growth. DFIs enhance the productivity of the sector by providing long-run liquidity through lending. The study concludes that conventional monetary policy has limited capacity to induce sustained gains, whereas DFIs have a more effective contribution to make to underpin agricultural performance.

Regionally, Norfund (2019) assessed the role of DFIs in making energy development feasible in Sub-Saharan Africa. The study established that DFIs have a critical contribution to make in offering inputs which have the effect of reducing risks associated with independent power projects. Similarly, Attridge and Gouett (2019) examined the contribution of DFIs in aligning private sector investments towards meeting energy consumption-driven environmental needs. Based on their study, DFIs significantly drive private investments amounting to the United Nations Sustainable Development Goals by creating investment opportunities.

Scaling up to larger developing country contexts, Attridge, Calleja, Gouett, and Lemma (2019) explore the contribution of DFIs to mobilising private sector investment. The study concludes that while DFIs have succeeded in financing activities in line with sustainable development objectives, e.g., renewable energy and climate resilience, their overall impact in mobilising private investment at scale remains limited. There is also evidence that DFIs concentrate on less risky markets and gain from co-financing with multilateral or public institutions, which might confine them to reaching the poorest and most vulnerable economies.

In the context of Europe, Clò et al. (2022) test the impact of DFIs' equity participation on innovation activities of firms. They discover that firms attain higher levels of patenting following DFI equity investment and that the effect becomes stronger where DFIs co-invest with private investors. The impact is strongest when the DFIs are from strong institutions with good institutional frameworks and when receiving firms belong to high-technology or green sectors. For South Africa, Zikhali (2021) investigates the relationship between DFIs and economic growth using yearly data and the ARDL bounds testing method. The study provides empirical evidence of a long-run relationship between economic growth and DFI activity and shows that DFI extensions have a positive long-run effect on growth. Based on these findings, the study recommends policy to allow for DFI expansion and calls for smoother foreign DFI capital inflows.

Generally, the reviewed studies underscore the importance of DFIs in stimulating sectoral growth and economic development, characteristically reflecting stronger and longer-lasting effects than conventional monetary policy tools. However, there remains limited empirical work that examines the relationship between monetary policy and DFIs generally, not to mention specifically by reference to Nigeria, and thereby a lacuna that this research seeks to fill.

Methodology

The study examines the effect of monetary policy on Nigeria's development finance institutions (DFIs) between 2008 and 2023. Data are derived from annual time series data obtained from the Central Bank of Nigeria (CBN) annual reports. Monetary policy is represented by monetary policy rate (MPR), cash reserve ratio (CRR), and open market operations sales (OMO), whereas DFI activity is represented by net loans extended by these financial institutions. Inflation serves as the control variable. Since its establishment, the number of DFIs included in CBN annual reports has ranged between five and seven and include the Bank of Industry (BOI), Bank of Agriculture (BOA), Federal Mortgage Bank of Nigeria (FMBN), Nigerian Export-Import Bank (NEXIM), Urban Development Bank of Nigeria (UDBN), Infrastructure Bank (TIB), National Economic Reconstruction Fund (NERFUND), Nigeria Mortgage Refinancing Company (NMRC), and the Development Bank of Nigeria (DBN).

The model is specified in log-linear terms to allow empirical estimation. Monetary policy is a priori expected to have a restrictive effect on DFIs. Increases in the monetary policy rate, and cash reserve ratio raise funding costs, tighten credit supply, and reduce demand for long-term loans and thereby restrain DFI disbursements and project finance. Similarly, open market operations measured in terms of sales absorb liquidity from the financial markets, increase short-term interest rates, and push banks into risk-free instruments, limiting funds for co-financing with DFIs. For the control variable, inflation is also expected to exert a negative influence, as inflation deteriorates the real value of money, increases uncertainty, and lowers the capacity of DFIs and borrowers to sustain long-term investment. In all, tighter monetary policy and higher inflation are projected to decrease the channeling of funds by DFIs. The study presents the expanded long-run ARDL model in the following specification:

$$\ln DFI_t = \vartheta_0 + \phi \ln MPR_t + \alpha \ln CRR_t + \pi \ln OMO_t + \beta \ln INF_t + e_t$$

In this extended model, $\vartheta_0 = \ln A_0$ is the constant term, MPR denotes monetary policy rate, CRR represents cash reserve ratio, OMO is the open market operations, INF is the inflation rate,

ϕ, α, π , and β are coefficients measuring the respective variables impacts on DFIs, and e_t represents the error term accounting for unobserved shocks and omitted influences. The short-run ARDL error correction model specification is as follows:

$$\begin{aligned} \Delta \ln DFIs_t = & \alpha_0 \\ & + \sum_{i=1}^{p-1} \alpha_i \Delta \ln DFIs_{t-i} + \sum_{j=0}^{q1} \beta_j \Delta \ln MPR_{t-j} + \sum_{k=0}^{q2} \gamma_k \Delta \ln CRR_{t-k} \\ & + \sum_{l=0}^{q3} \delta_l \Delta \ln OMO_{t-l} + \sum_{m=0}^{q4} \eta_m \Delta \ln INF_{t-m} + \lambda ECT_{t-i} + \varepsilon_t \end{aligned}$$

The equation above captures the short-run error correction model of the ARDL process with changes in DFIs ($\Delta \ln DFIs$) as the dependent variable. It captures the impact of monetary policy variables such as the monetary policy rate, cash reserve ratio, open market operations, and inflation on DFIs with an immediate and lagged effect. The appearance of the error correction term (ECT_{t-i}) shows how short-run deviations move towards long-run equilibrium, with the coefficient capturing the speed of adjustment. The error term (ε_t) captures residual deviants in the model. This kind of ARDL approach is appropriate for both short-run and long-run analysis where variables are a combination of I(0) and I(1), since none are integrated of order two.

Presentation and Analysis of Results

Descriptive statistics in Table 1 illustrate noteworthy features of the variables. Net loans of Development Finance Institutions (DFIs) in billions of naira have a mean of ₦1,324.54 billion but has extreme fluctuations with a high point of ₦3,774.48 billion and a low of ₦59.76 billion, as denoted by a tremendous standard deviation. Similarly, Open Market Operations (OMO), in billions, averages ₦10,665.59 billion but varies remarkably widely, ranging from ₦50.8 billion to ₦34,610.06 billion, highlighting its volatility. Comparatively, the monetary policy indicators in percentages vary less remarkably: Monetary Policy Rate (MPR) averages 11.97%, Cash Reserve Ratio (CRR) 17.25%, and inflation (INF) 13.49%. Skewness measures suggest DFIS, OMO, and INF are positively skewed and MPR and CRR are negatively skewed, i.e., they are asymmetrical in their distributions. Kurtosis measures show that MPR, OMO, and INF are slightly leptokurtic, whereas DFIS and CRR are relatively normally distributed. Finally, Jarque-Bera test probabilities, all above 0.05, confirm that the series are approximately normally distributed, as they should be for further econometric analysis.

Table 1: Descriptive Statistics

	DFIS	MPR	CRR	OMO	INF
Mean	1324.542	11.96875	17.25000	10665.59	13.49112
Median	690.3850	12.50000	21.25000	9735.950	12.38103
Maximum	3774.480	15.50000	32.50000	34610.06	24.65955
Minimum	59.76000	6.000000	1.000000	50.80000	8.047411
Std. Dev.	1487.983	2.572086	9.989995	9499.468	4.271887
Skewness	1.032487	-1.049313	-0.465741	0.916466	1.068276
Kurtosis	2.238264	3.225710	2.016649	3.483042	3.977121
Jarque-Bera	3.229572	2.970116	1.223093	2.395315	3.679748
Probability	0.198933	0.226489	0.542511	0.301901	0.158837
Sum	21192.67	191.5000	276.0000	170649.5	215.8579
Sum Sq. Dev.	33211382	99.23438	1497.000	1.350000	273.7352
Observations	16	16	16	16	16

Source: Authors' computation, 2025

Table 2 presents the correlation matrix between variables, both direction and magnitude of their linear relationships. Development Finance Institutions (DFIs) is significantly positively correlated with the Cash Reserve Ratio (CRR, 0.74) and inflation (INF, 0.67), showing that increases in CRR and inflation are correlated with higher DFIs flows. DFIs also exhibit positive moderate correlations with the Monetary Policy Rate (MPR, 0.38) and Open Market Operations (OMO, 0.42). Among policy variables, MPR is highly correlated with CRR (0.71) and modestly with OMO (0.63), indicating regularity of direction of monetary policy instruments. CRR and OMO are highly correlated (0.67), while inflation exhibits moderate correlations with CRR (0.53) but low correlations with MPR (0.24) and OMO (0.29). On average, the results point to important correlations between DFIs and monetary policy variables, in particular CRR and inflation, without presenting far too high correlations to indicate multicollinearity problems.

Table 2: Correlation Analysis

	DFIs	MPR	CRR	OMO	INF
DFIs	1				
MPR	0.3812	1			
CRR	0.7356	0.7086	1		
OMO	0.4160	0.6326	0.6678	1	
INF	0.6701	0.2357	0.5300	0.2945	1

Source: Authors' computation, 2025

Table 3 shows the Augmented Dickey-Fuller (ADF) unit root test results. The findings indicate that all the variables, except inflation (lninf), are not stationary at levels but are found to be stationary when first differenced, confirming that they are integrated of order one, I(1). That is, lndfis, lnmp, lnrr, and lnomo reject only the null hypothesis of a unit root at first difference, while lninf is stationary at level, I(0), at the 5% significance level. This finding suggests a mix of orders of integration, I(0) and I(1), between the variables, and thus the ARDL bounds testing approach is appropriate to examine long-run relationships in the subsequent analysis.

Table 3: Unit root test (Augmented Dickey Fuller)

Variables	Levels	1 st Diff	Remark
lndfis	-0.2561	-3.7205**	I(1)
lnmp	-1.7528	-4.1468***	I(1)
lnrr	-1.0959	-4.5092***	I(1)
lnomo	-1.7687	-3.6779**	I(1)
lninf	-3.9023**	-	I(0)

Note: ***, ** and * denote rejection of null hypothesis at 1%, 5% and 10% significance levels respectively.

Source: Authors' Computation (2025)

Table 4 shows the ARDL bounds test statistics for cointegration with development finance institutions (Indfis) as the endogenous variable and monetary policy indicators (lnmpr, lnerr, lnomo, and lninf) as explanatory variables. The estimated F-statistic of 1.22 is below the lower bound critical values at all the significance levels (3.29 at 1%, 2.56 at 5%, and 2.20 at 10%). This implies that the null hypothesis of no cointegration cannot be rejected and thus no long-run equilibrium relationship exists between development finance institutions and the selected monetary policy variables. Accordingly, the variables are not in any long-run relationship and thus additional analysis has to be in terms of short-run dynamics and not long-run causality.

Table 4: Cointegration Test Results using ARDL Bound Test

Dependent variable: Indfis	Functions				F-statistics	
ARDL (1, 0, 0, 0, 0)	F(lnmpr, lnerr, lnomo, lninf)				1.22	
	1%		5%		10%	
	I(0)	I(1)	I(0)	I(1)	I(0)	I(1)
Critical bound values for the models (k = 4)	3.29	4.37	2.56	3.49	2.2	3.09

Note: ***, ** and * denote rejection of null hypothesis at 1%, 5% and 10% significance levels respectively.

Source: Authors' Computation (2025)

Short-run regression estimates in Table 5 show mixed impacts of monetary policy variables on Development Finance Institutions (DFIs). Monetary policy rate (lnmpr) and cash reserve ratio (lnerr) both have positive but insignificant impacts on DFIs, as demonstrated by their high probability values of 0.9618 and 0.9167, respectively. This shows that short-run variations in these variables do not have a significant impact on the activities of DFIs. Inflation (lninf) also has a positive but insignificant impact ($p = 0.2807$), showing that rising inflation does not have a significant influence on stimulating DFIs in the short run. Open market operations (lnomo) are, on the other hand, negatively and statistically significant (coefficient = -2.041622, $p = 0.0297$), thus an increase in OMO activities limits the performance of DFIs in Nigeria in the short run.

The error correction term (ECT(-1)) is negative and significant (-0.333467, $p = 0.0082$), revealing that every short-run imbalance will correct towards long-run equilibrium at a rate of about 33% per period. The high value of R-squared (0.95) shows that the model accounts for approximately 95% of the differences in DFIs, while the F-statistic (15.71, $p = 0.0017$) verifies the general significance of the model. The Durbin-Watson statistic (2.76) also indicates no significant problem of autocorrelation. These results demonstrate that while most monetary policy instruments are not exerting significant short-run effects on DFIs, open market operations are a significant contractionary tool, and the system readjusts itself efficiently towards long-run equilibrium.

Table 5: Short-run Estimates of the Impact of Monetary Policy on DFIs in Nigeria.

Explanatory Variables	Dependent Variable: lnDFIs			
	Coefficient	Std Error	t-Statistic	Prob.
Short run estimates				
d(lnmpr)	0.0859	1.7209	0.0499	0.9618
				0.916
d(lncrr)	0.1055	0.9681	0.1090	7
d(lnomo)	-2.0416	0.9556	-2.1363	0.0297
d(lninf)	1.1591	0.9779	1.1853	0.2807
ECT(-1)	-0.3334	0.0988	-3.3749	0.0082
R-squared	0.9544	Mean dependent var		6.6557
Adjusted R-squared	0.8936	S.D. dependent var		1.1992
S.E. of regression	0.3910	Akaike info criterion		1.2437
Sum squared resid	0.9174	Schwarz criterion		1.6685
Log likelihood	-0.3279	Hannan-Quinn criter.		1.2391
F-statistic	15.709	Durbin-Watson stat		2.7622
Prob(F-statistic)	0.0017			

Source: Authors' computation (2025).

Conclusion and Recommendation

The study establishes that monetary policy significantly shapes the performance of Development Finance Institutions (DFIs) in Nigeria. While monetary policy rate, cash reserve ratio, and inflation have significant but positive effects on DFIs in the short run, open market operations have a statistically significant and negative effect, curbing DFI operations. The error correction term confirms that disequilibrium adjusts to long-run equilibrium, with the model explaining a vast majority of the variations in DFIs. Overall, the evidence puts forward that although DFIs have a crucial contribution to mobilising finance into development-supporting sectors, their effectiveness is highly sensitive to monetary policy terms.

The study recommends that monetary policymakers should come up with more balanced policies that diminish the restrictive impacts of open market operations in contrast to supporting DFIs' ability to lend. Increasing collaboration between the Central Bank of Nigeria and DFIs can help coordinate liquidity management with development finance goals. In addition, enhancing the encouragement of sound macroeconomic conditions, expanding sources of concessional finance, and institutionalising resilience in DFIs will enhance their ability to support long-term projects essential for inclusive development and structural transformation in Nigeria.

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