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Review Of Financial Deepening As A Panacea To Poverty Eradication In Nigeria: 1986-2020

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ABSTRACT
The Federal Government, through the Central Bank of Nigeria, has been deepening the Nigerian financial sector with the goal of reducing poverty, but this social menace has persisted in the country. This study was carried out to investigate the effect of financial deepening on poverty in Nigeria from 1986-2020. Specifically, the study examined the effect of financial deepening variables proxied by ratio of private sector credit to GDP and broad money supply to GDP on poverty reduction proxied by real per capita income (RPCI). Ex-post facto research design and multiple linear regression model were adopted for the study. Secondary data was obtained from the Statistical Bulletin of the Central Bank of Nigeria and the National Bureau of Statistics (NBS) and estimated using Ordinary Least Squares estimation techniques. The study found that there is a significant positive effect of broad money to GDP on poverty reduction in Nigeria while the ratio of private sector to GDP had a negative effect on poverty reduction in Nigeria. The study concluded that financial deepening can reduce poverty in Nigeria provided that the sincerity of the Federal Government is brought to bear on poverty reduction. The study recommended that the government, through the CBN, should put the minimum rediscount rate at a single digit so as to ease access to loanable funds and enhance the performance of both SMEs and the private sector with the view to reducing poverty in Nigeria.

Keywords: *Financial deepening, private sector credit, broad money supply, per capita income.*

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I. INTRODUCTION

Background of the Study

The continuous deterioration of standard of living in Nigeria has added to the high level of poverty in Nigeria. Poverty is a menace which reflects the way of life and directs the conditional wellbeing of a people. Its potential effects on the general behavior of the people are too numerous. Some great countries use poverty level to determine the level of growth and development. Many believe that poverty is a mindset and not necessarily lack of material possession, while others believe that it is absence of money or other valuables used to solve their daily problems. There are views that the expansion of poverty obstructs economic growth in the developed as well as the developing countries as it may create a barrier to increased productivity and economic growth. Finance and its accessibility by the downtrodden which always constitute the majority of the population especially in the developing economy like ours has continued to be main reason poverty has refused to leave Africa and Nigeria in particular.

Annan (2003) opined that “the great challenge before us is to address the constraints that exclude people from full participation in the financial sector together; we can and must build inclusive financial sectors that help people improve their lives.” The increasing rate of poverty in Africa and especially in Nigeria with her vast economic natural endowments pose a unique challenge to the managers of Nigerian economy charged with finding a solution to the poverty situation in the country. Poverty line is an imaginary international income level for those

living below two dollars per day. In June 2018, a new report by the World Poverty 2 Clock shows Nigeria has overtaken India as the country with the most extreme poor people in the world.

According to the report, India has a population seven times larger than Nigeria and the struggle to lift more citizens out of extreme poverty is an indictment on successive Government in Nigeria. It continued that 86.9 million Nigerians now live in extreme poverty representing nearly 50% of its estimated 200 million population. World Bank report by Nasir (2022) continued that out of every 10 people 4 are poor and the report also projected that about 95.1 million Nigerians will be below poverty line by the end of year 2022. The report indicates an additional increase of up to 14.7% to already existing 50% that will be 64.7% projections at the end of this year if nothing was done urgently and fast. This report came after the ill-conceived cashless policy and redesigning of #200, #500 and #1000 naira notes by Governor Godwin Emefiele led CBN which has hitherto crippled the economy and will subsequently subject more people to poverty level.

Essentially, many advanced countries had gone so far in achieving these poverty free goals but the Sub-Saharan Africa region is still bedeviled with so much socio-economic problems, of which high rate of unemployment and poverty are the major course (Akpan, 2011; Agwu, 2019). They have about 50% of its population living in abject poverty, because of lack of job opportunities (Ayoade, & Agwu, 2016; Agwu, 2019).

Statement of the Problem

Only few Nigerians have access to good health care services, adequate shelter, sound and quality education, potable water, good tarred and access road etc. Increase in poverty has led to increase in crime, reduction in life expectancy, child labour, high child and maternal mortality rates, youth restiveness and get rich quick syndrome (Njoku & Onuoha-Ogwe, 2022).

Essentially, to achieve poverty reduction in Nigeria, National government adopts various strategies, these include government expenditure, financial deepening, financial reforms, micro financing, rural development, agricultural financing and vocational training etc. However, financial deepening have been identified as key poverty reduction strategies of the government.

In the last four decades, the successive government in Nigeria, being aware of these problems and challenges facing the development of an average households, have implemented different infrastructural financing that are expected to bring a lasting solution to the problems of poverty and hunger in Nigeria but seems their efforts were not yielding results hence the need for evaluation of government expenditure and financial deepening as it affects the poor people of this country Nigeria. However, to tackle these problems, the successive government in Nigeria, coupled with the private sectors, especially, the financial institutions, have formulated and implemented different social and financial incentives towards ensuring that youths are empowered to solve the problem of poverty. Despite different programs, it is worrisome seeing that rather than poverty level reducing, it has been going in an upward trend.

Objectives of the Study

The broad objective of the study was to examine the effect of financial deepening on poverty reduction in Nigeria. The specific objectives were:

i. To determine the effect of ratio of private sector credit to GDP on poverty reduction in Nigeria.
ii. To determine the effect of broad money supply to GDP on poverty reduction in Nigeria.

Research Hypotheses

The research hypotheses were stated in null forms to guide the study as follows:
HO_1: There is no significant influence of ratio of private sector credit to GDP on poverty reduction in Nigeria.
HO_2: There is no significant influence of broad money supply to GDP on poverty reduction in Nigeria.

The paper is divided into five sections, first is the introduction, second is the review of related literature, third is the methodology, and fourth is the results and five is the conclusion and recommendations.

II. REVIEW OF RELATED LITERATURE

Financial deepening

According to Akinmulegun & Akinde (2019), financial deepening is the ease with which the financial Institutions creates funds for the funding of entrepreneurial activities, and the extent to which financial services are made accessible in an economy. Several attentions have been raised towards financial deepening. Financial deepening simply implies the strengthening of the financial system in order to be able to perform crucial role in the economy. Its increases in ratios such as M2 to GDP, domestic credit to private sector as a percentage of GDP, currency in circulation to broad money (CC/M2), and capitalization to GDP are indicators of financial deepening.

Goldsmith (1969) measured financial deepening via financial interrelations ratio (FIR) which he explained as the ratio of the aggregate market value of all financial instruments in a country at a given date to the

value of its tangible net national wealth. Thus, the higher the FIR, the higher the level of financial deepening and vice versa.

Rejan and Zingales (1998) also argued that an adequate measure of financial deepening should focus on the ease with which deficit spending units acquire loanable funds to finance some projects. Moreover, a well-developed financial system, "should be able to forecast and hedge risk in a cost effective manner."

To Yaw & Twerefou (2018). financial deepening is the improvement in the efficiency in the banking institutions and financial systems in developing countries. they further clarified financial deepening using 4 different indicators: (1) improvement in the efficiency of the financial sector; (2) increasing range and access of financial system; (3) improvement in the regulation of the financial sector; and (4) increasing access of the population to the financial services.

Ajakaiye (2012) noted that financial development tends to increase economic growth and reduce poverty. Having a financial system that is sound is critical to economic growth of a nation. This is because it enhances economic performance by improving the welfare condition of the people. In a similar view, Babajide, etal (2015) established that financial system plays the role of promoting economic growth through financial intermediation by channeling funds from the surplus unit to the deficit unit of the economy. In other words, financial deepening is a system that creates an avenue for financial infrastructure to help allocate resources to individuals/units that are potentially more productive to invest those resources. It is a system designed to effectively mobilize financial resources which are converted into loans to businesses, government, households in order to get economic activities that engender growth stimulated in the economy.

Emperical Review

Financial Deepening and Poerty Alleviation

Haan, Pleninger and Sturm (2021) argued that financial development may affect poverty directly and indirectly through its impact on income inequality, economic growth and financial stability. However, financial development leads to a greater inequality, which, in turn, results in more poverty; this shows that financial development has an indirect effect on poverty through this transmission channel. Financial development may also indirectly affect poverty. The study asserted that it is important to distinguish between indirect, a mediating and a conditioning effect. The study provided evidence on the relationship between financial development, measured as the ratio of private credit to GDP, and poverty reduction.

Abdulrasheed Isah (2020), utilized the ARDL estimation technique to examine the impact of financial development on income poverty in Nigeria between 1980 and 2018. The results of the study revealed that financial development has a positive impact on income poverty in the long run. The conclusion of the study is that financial development has an inverted U-shaped impact on income poverty, which implies that financial development would worsen income poverty before improving it after a certain tipping point. The study recommended that policymakers should get the financial system overhauled through innovations, adequate and effective regulation, ensuring sound and efficient legal system, efficient mobilization of funds and making such funds available for creative investments in remote areas.

Olawumi, et al (2017) examined the effect of financial deepening on wellbeing conditions of the Nigerian populace with regards to selected Nigerian commercial banks granting people access to financial products and services. The study used (M2/GDP), ratio of private sector credit to GDP, ratio of deposit. Liability- GDP as variables of financial deepening. The study revealed that financial deepening made a significant impact contributions to the level of profitability of the selected commercial banks in Nigeria.

Yinusa and Alimi (2015) examine the relationship between financial development, income inequality and poverty level in Nigeria; alongside explores if the Greenwood and Jovanovich hypothesis applies in Nigeria. Spanning over the period of 1981-2012, the study employed the Johansen Cointegration and error correction techniques. The findings of the study showed that financial development does not reduce poverty and income inequality. The study recommended an appropriate reform of the financial system that is targeted at correcting the financial market imperfections could help developed a well-organized financial sector that can help reduce poverty and income inequality in Nigeria.

Allen, et al (2014) reviewed the Chinese financial system and its possible challenges. The study however discovered a huge deal of financial sector roles in poverty alleviation through commercial Banks in China. The study recommended government support and inclusion of both the capital markets and financial sector to enable them continue to improve the life of an ordinary citizens which will in turn lead to economic growth in China.

Dauda and Makinde (2014) examined the nexus between financial sector development and poverty reduction in Nigeria using Vector autoregressive (VAR) model (1980 –2010). The choice of the study has been motivated by the alleged failure of the financial sector development in bringing about a reduction in the worsening trend in poverty incidence in Nigeria. The results showed that the indirect effect of economic growth exerts the strongest influence on poverty reduction in the short run but could be detrimental to the poor in the long run due to the adverse effect of income inequality. Furthermore, the relationship between poverty and the financial

deepening proxied by broad money supply (M2) is negative and significant. Hence, the McKinnon conduit effect is the likely main transmission channel through which the poor benefit from the financial sector development in the long run. The study, however, concludes that credits to private sector, contrary to the general belief, have failed to cause a reduction in the incidence of poverty in Nigeria.

Theoretical Framework

This study adopted the endogenous growth theory which recognizes innovations in the financial sector development and technical progress with expenditure on human capital, and financial innovations, i.e. financial deepening endogenously determined in the economy. From this theory, this study set out to determine the relationship between government expenditure, financial deepening and poverty reduction in Nigeria over the period of 1986 to 2020.

The endogenous growth model can be expressed in a simplified form as:

$$Y_i = A(K)\,f\,(K_i\,L_i)$$

Where;

Y_i denotes output of firm i, K_i denotes stock of capital, L_i denotes stock of labour, K without the subscript i denotes the aggregated stock of capital and A is the technical factor.

III. METHODOLOGY

Research Design

The study adopted *Ex-post facto* research design because the data on model variables were already in existence. Secondary data used were generated for the period 1986-2020 from the Central Bank of Nigeria statistical bulletin of various edition.

Model Specification

The study adopted the OLS multi-variable model of Onwuka and Nwadiubu (2019) with modification in estimating the influence of financial deepening on poverty reduction in Nigeria. The real per capita income proxies poverty reduction and serves as the dependent variable while the ratio of broad money supply to GDP $\left(\frac{M_3}{GDP}\right)$ and private sector credit to GDP $\left(\frac{PSC}{GDP}\right)$ were the independent variables. The functional model was stated as follows:

$$RPCI = f\left(\frac{M_3}{GDP}, \frac{PSC}{GDP}\right) \quad (1)$$

Where,

RPCI = Real per capita income, proxy for poverty reduction

$\frac{M_3}{GDP}$ = Financial deepening indicator

$\frac{PSC}{GDP}$ = Financial intermediation indicator

The econometric equation is generated and stated in reduced form for a robust results:

$$RPCI = \beta_1 \frac{m_3}{gdp} + \beta_2 \frac{psc}{gdp} + \varepsilon_t \quad (2)$$

Thus, the OLS multiple regression techniques can be employed if all the variables in the study are integrated of the same order.

IV. RESULTS

The regression results obtained in table 1 below was used for decision making on the statistical significance or other wise of financial deepening variables $(\frac{PSC}{GDP})$ and $\left(\frac{M_3}{GDP}\right)$ on poverty reduction (RPCI) in Nigeria during the period under review.

Table 1: OLS Result

Dependent Variable: RPCI				
Variable	**Coefficient**	**Standard Error**	**t Statistic**	**Prob.**
$\frac{M_2}{GDP}$	2.273	0.544	4.181	0.0000***
$\frac{PSC}{GDP}$	-0.011	0.003	-3.253	0.0218**
R^2	0.716			
Adjusted R^2	0.705			
Durbin-Watson	1.98			
Heteroskedasticity Test: Breusch-Pagan-Godfrey (Probability)	0.5001 (0.6112)			

Serial Correlation LM Test (Probability)	0.0034 (0.9190)

Note: * indicates significance at 1%; ** indicates significance at 5%**
Source: Author's estimation using E views 9

Effect of Financial Deepening variables on Poverty Reduction in Nigeria

The OLS result presented in Table 1 revealed the level of significance of financial deepening variables on poverty reduction in Nigeria. The poverty reduction proxied by RPCI was dependent variable while the ratios of broad money to gross domestic product $\left(\frac{M_3}{GDP}\right)$ and private sector credit to gross domestic product $\left(\frac{PSC}{GDP}\right)$ which capture financial deepening and financial sector intermediation respectively were independent variables.

The OLS result shows that the model is an appropriate model with an R-squared statistic of about 0.72, and an Adjusted R-squared of about 0.71. This implies that 72% of the dependent variable (which is poverty reduction measured by RPCI) is explained by the explanatory variables (financial deepening, and financial sector intermediation) while 28% is explained by other variables not included in the model. The Durbin-Watson statistic of 1.98 implies absence of serial correlation among variables in the model. This is as a result of the Durbin-Watson value being close to 2. The LM serial correlation statistic also approves that there is no serial correlation among variables in the model since its probability is above the 5% level of significance. In addition, the heteroskedasticity statistic provides the evidence that the entire model is significant.

From the OLS result used, financial deepening does has a positive and significant influence on poverty reduction in Nigeria. In other words, increase in financial sector development alleviates poverty in Nigeria. Financial sector development has a positive effect on alleviating poverty in Nigeria. This therefore corroborates the notion of Onwuka and Nwadiubu (2019) under financial development theory of Schumpter.

The R^2 value, Durbin-Watson statistics, LM serial correlation and the heteroskedasticity statistic all provide the evidence that the OLS model is significant; and thus, appropriate.

Test of Research Hypotheses One

HO_1: There is no significant effect of ratio of private sector credit to GDP on poverty reduction in Nigeria.
HA_1: There is significant effect of ratio of private sector credit to GDP on poverty reduction in Nigeria.

From table 1, the coefficient for $\frac{M_3}{GDP}$ indicates a positive and significant effect of financial deepening on real per capita income (RPCI) in Nigeria. This implies that an increases in financial sector development enhances poverty reduction to the tune of about 227.3% in Nigeria. The study rejected the null hypothesis and accepted the alternate hypothesis with the conclusion that financial sector development have a positive effect on alleviating poverty in Nigeria. This result meets a priori expectation, and affirms to the notion of Onwuka and Nwadiubu (2019) under financial development theory of Schumpter.

Test of Research Hypotheses Two

HO_2: There is no significant effect of broad money supply to GDP on poverty reduction in Nigeria.
HA_2: There is significant effect of broad money supply to GDP on poverty reduction in Nigeria.

The coefficient on financial intermediary proxied by $\frac{PSC}{GDP}$ is negative but statistically significant. In other words, a unit increase in the level of intermediation between savers and investors would reduce the living conditions of people in Nigeria by about 1.1 per cent. This is possibly due to the low savings rate, and high interest and stringent conditions in obtaining loans for productive investment loans that has decreased peoples' access to financial services depriving them to invest in productive/ new 'technologies' *e.g.* new and better equipment, fertilizers, or to invest in education and health which would in future provide a higher income, and thus alleviate their poverty level (Alade, 2017).

V. CONCLUSION AND RECOMMENDATION

Conclusion

The OLS result in table 1 indicated that, financial deepening has a positive and significant influence on real per capita income *i.e.* the financial sector development has the potentials of reducing poverty level in Nigeria. The findings also reveal that financial intermediary has a negative and significant influence on real per capita income thereby in opposition to the a priori expectation. This is possibly due to the low savings rate, and high interest and stringent conditions in obtaining loans for productive investment loans that has decreased peoples' access to financial services. Financial sector equally has the potential of alleviating poverty in Nigeria. The study concludes that the development of the financial sector has a beneficial effect on poverty reduction, and so it is undoubtedly useful to encourage financial deepening through lending to the poor.

Recommendations

This study recommended as follows:

1. Government should put in place institutionalized banking schemes in order to safeguard depositors access to loanable funds. This will encourage savers to put more money in the bank which could be channeled as loans to small and medium enterprises so as to increase their income.
2. The private sector should be encouraged to complement government efforts on building and construction infrastructures by translating the accrued funds from tax holidays into carrying out some corporate social responsibility.

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