Financial Inclusion and Manufacturing Industry Performance in Nigeria (1982-2018)

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Abstract: *Financial inclusion outspreads financial intermediation to the vulnerable segments of a nation at cheap prices and favourable terms, however, influences of financial inclusion efforts on Nigerian manufacturing industry were yet to be ascertained. This study investigated the effects of financial inclusion on the contribution of the manufacturing industry to gross domestic product (GDP) in Nigeria.Secondary data used were sourced from central bank of Nigeria statistical bulletin between 1982 and 2018. Vector error correction model and granger causality tests were used for analyses.The contribution of manufacturing industry to GDP (MGDP) was regressed on financial deepening indicators (FD) and financial inclusion indicators (FI), the former included, percentage of credit to private sector to GDP (CPSGDP) and percentage of money supply to GDP (M2GDP), while the latter included deposits of rural branches of commercial banks (DR), loans of rural branches of commercial banks (CR) and number of commercial banks branches (NOB). none of the independent variables had significant effect on MGDP, a one percent change in one period lagged value CPSGDP and M2GDP caused 28.6% and -13.5% changes in MGDP respectively while a 1% change in one period lagged value of DR, CR and NOB caused 0.1% 4.7% and -13.3% changes in MGDP respectively. Shocks in financial inclusion indicators hadno immediate effect but improved from period two to period ten when it was -0.017, -0.018, and 0.006 for DR, CR,NOB respectively, 6% of forecast error variance in MGDP was accounted for by financial inclusion in the short runwhich amplified to about 9% in the long run and loanof rural branches of commercial banks (CR) accounted for the highest influence on the average, in addition, a causal relationship flowing from DR to CR was established.Government should encourage the spread of commercial banks services through bank agents that are empowered to grant loans, attract deposits and provide other financial services to rural dwellers, in addition, regulations that restricted spread of microfinance banks in Nigeria should berelaxed.*
Keywords: *financial inclusion, financial deepening, vector error correction model (VECM)*

I.   Background

Financial institutions provide financial intermediation services, sourcing excess funds in the economy and channeling such funds to the deficit sectorto engender inclusive economic growth and development. Schumpeter (1911), established that financial institutions are important in the resource allocation process, various empirical studies have also pointed out that financial sector primarily provides liquidity that elicits more investment in productive assets leading to efficiency in capital accumulation and economic growth (Diamond and Dybvig 1983). These important economic functions underscore the actions of governments to encourage access to financial services cheaply, however, the financially excluded segments of the global economy is still large (World Bank 2014, Demirgüç-Kunt, Asli, Klapper, Singer, and Van Oudheusden. 2015). Regulatory authorities have developed conscious financial inclusion strategies and targets over the years, for instance, several United Nation's development goals have financial inclusion as main targets(United Nations,2014), the Central Bank of Nigeria (CBN) has also developed a national financial inclusion strategy(NFIS) document to achieve financial inclusion of identified segments of the Nigerian demography, the revised NFIS has clear targets for year 2020 in the areas of payments, savings, credit insurance, pension and bank branches, other target areas include micro finance bank branches, automated teller machine (ATM), point of sale terminal (POS), mobile money or bank agents and know your customer identification (KYC -ID).

Financial inclusion is the process of making citizens and corporate bodies especially the vulnerable segments access large range financial services that meet their needs cheaply, Chakrabarty 2010, defines financial inclusion as the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker segments and low income groups in particular at an affordable cost in a fair and transparent manner by regulated mainstream institutional players, beyond providing needed financial services, this definition emphasizes provision of services in a responsible and sustainable manner. Agarwal 2010 also defines financial inclusion as a process of ensuring access to financial

services, ensuring timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at affordable cost. As such financial inclusion should emphasize, identification and provisionof credit to the vulnerable groups, and thus, a large financial depth that exclude the low income and weaker sections of a country's population is not desirable. Hannig and Jansen 2011 in their definition emphasized the absence of price and non-price barriers in the use of financial services as main objectives of financial inclusion. Continually identifying financially excluded sections of a nation's demography and encouraging their access to wide range of needed financial services, cheaply and in a responsible manner will improve financial inclusivity.

Hannig and Jensen (2010), identified four dimensions of measuring financial inclusion thus, access of financial products to users, quality and appropriateness of financial product, extent of usage by the demand side and impact on customers lives. These can be sourced from the demand side or the supply side or both. Indicators of financial inclusion used by past empirical works include, bank account per adult, geographical branch penetration, geographical ATM penetration, demographic ATM penetration, demographic loan penetration, loan-income ratio, demographic deposit penetration, deposit- income ratio (deposit- gross domestic product ratio) and cash- deposit ratio.(Chattopadhyay 2011).

Financial inclusion increases economic growth, ensures greater access to financial services in form of payments, credit, savings and financial advisory services especially to the otherwise excluded segments of the society. When the financially poor and excluded are provided with financial access, their economic opportunities and welfare are expanded, funding gap are bridged and ultimately aiding inclusive growth, economic development and financial deepening. Although financial inclusion occasions financial stability, improved access to credit increases financial risk which necessitates improved supervision and customer education of loan usage (Garg and Agarwal 2014).

In Nigeria as at 2016, 58.4% of 96.4 million adults were financially included, and by 2020 the country targets to have 70% of its adult population banked by the formal sector and 10% by the informal sector. Analyses of the demography of Nigeria as at 2016 reveals that 46.5% of females, 52.5% of rural dwellers, 53.3% of youth between the ages of 18 and 25, 70% of dwellers in north east and the Micro Small and Medium Scale Enterprises (MSME) were financially excluded (CBN 2018) TheNFIS focuses on the turnaround of the aforementioned groups to achieve financial inclusion target for 2020. An analysis of economic data of Nigeria compiled by the CBN revealed that between 2009 and 2018, financial inclusion indicators of volume of ATM transactions increased by702%, volume of mobile money transfer increased by 4711% and commercial banks loan to manufacturing sector increased by 118%. Nevertheless, within the same period, the percentage contribution of manufacturing industry to gross domestic product (GDP) changed from 7.15% in 2009 to 9.74% in 2018, this is by far not commensurate with the quantum of increase in the financialinclusion indicators.

The large improvement recorded in the financial inclusion is yet to be proportionately reflected in the manufacturing sectors contribution to GDP. The manufacturing sector is very important in improving domestic production and achieving structural change from oil dependence in Nigeria, ascertaining the effect of financial inclusion on this critical manufacturing sector will therefore be worthwhile. Secondly, most reviewed empirical studies measure effect of financial inclusion on economic growth and development or inclusive growth without measuring the effect of financial inclusion on disaggregated components of GDP, in addition models used by reviewed studiesare plagued by the problem of endogeneity. (Mbutor and Ibrahim 2013, Nkwede 2015, Nwofor and Yomi 2018, Onaolapo 2015)). This study intends to fill these gaps.

The objectives of the paper are to ascertain the effect of financial inclusion on the manufacturing industry performance in Nigeria and test the direction of causality between financial inclusion indicators and manufacturing industry performance. Section two of the study presents the literature review followed by the methodology in section three. The result, findings and discussion is contained in section four and the paper concludes in section five with the recommendations.

II. Literature Review

The objectives of reviewed studies can be summarized into two categories, one, assessing the performance of regulators and financial intermediaries in the effort of attaining improved financial inclusion (Manoj 2015,Shankar 2013, Garg and Agarwal 2014) and two, ascertaining the effect of financial inclusion in economic development (Sharma and Kukreja 2013, Mbutor and Ibrahim 2013, Nkwede 2015, Nwofor and Yomi 2018, Onaolapo 2015).

Manoj (2015) undertook a critical study of the performance of commercial banks in India in respect of financial inclusion and identified their limitations and weaknesses, likewise, Garg and Agarwal (2014) aimed at identifying ways deployed by banks and regulatory bodies to achieve financial inclusion and analyzed past years' performance and achievement towards financial inclusion in India. Approaches to financial inclusion identified by the authors include, bank led initiatives, product led approach, government initiatives, knowledge based approach, technology based approach and regulator led approach. Shankar (2013) on the other hand was

more specific by investigating the contribution of microfinance bank to financial inclusion where the author identified barriers to attaining improved financial inclusion in India and made enquiry into how adequately micro finance institutions breakdown barriers to financial inclusion. The author identified the barriers and categorized them into supply side barriers and demand side barriers, the former include physical, product suitability and documentation barriers while the latter include psychological, cultural and financial literacy.

Sharma and Kukreja (2013) explored the need and significance of financial inclusion for economic and social development of the society and analyzedthe state of financial inclusion in India. Nkwede (2015) domesticated his study in Nigeria and aimed to ascertain the effect of financial inclusion on economic growth in Africa with Nigeria as the case study, Onaolapo (2018) followed similar objective as in Nkwede (2015) butNwofor and Yomi (2018) in addition measured the effect of financial inclusion on poverty and the effect of commercial banks intermediation on financial inclusion. However, Mbutor and Ibrahim (2013) measured the effect of financial inclusion on economic policy rather than on economic growth, the authors aimed to ascertain the role of financial inclusion in transmitting monetary policy impulses to achieve target economic objectives.

Studies that assessed the performance of regulators and financial institutions at achieving financial inclusion deployed trend analyses, cross tabulation matrix, and bar charts.Manoj (2015) did a trend analyses of the type of bank branches operating in India between 2006 and 2014, the bank branches were categorized into rural, semi-rural, semi urban, urban and metropolitan, Shankar (2013) presented a matrix obtained by cross tabulating microfinance coverage with banking coverage in regions of India, in addition, micro finance institutions field officers were interviewed. Bar charts were deployed by Garg and Agarwal (2014), the authors presented and analyzed three bar charts ofrelevant variables in India between March 2010 and March 2013, the first wasthe number of bank branches and business correspondents existing in India, the second, was the amount of saving bank deposits opened through bank branches and through businesscorrespondents and third wasthe number of farmer credit cards and general purpose credit cards issued. Majority of reviewed works that assessed the effect of financial inclusion on growth deployed Ordinary Least Square regression, for instance, Mbutor and Ibrahim (2013) regressed inflation rate on number of bank branches, total number of loans and advances of commercial banks as a percentage of gross domestic product, aggregate commercial bank rural branches loans and deposits, and control variables of lending rate and foreign exchange rates. Nwofor and Yomi (2018) similarly regressed gross domestic product on financial deepening indicators, commercial bank deposit from rural areas, commercial banks loans to rural areas, commercial banks loan to deposit ratio and commercial banks loan to small and medium scale enterprises in Nigeria. Onaolapo (2015) in his work used three models, the first model regressed per capita income on number of commercial banks branches, bank loans to rural areas, demand deposit from rural areas and Central Bank of Nigeria agricultural credit guarantee scheme. The second model regressed Gross domestic product on financial deepening, loan to deposit ratio and liquidity ratio while the third model regressed deposit from rural areas on capital adequacy of financial institutions, loan to rural areas, loan to deposit ratio and loan to small scale enterprises. In measuring the effect of financial indicators on economic growth, reviewed authors commonly used gross domestic product as the regressand while financial deepening indicators, banking industry ratios and control variables (inflation rate, interest rate exchange rate) were used as regressors.

Majority of the reviewed works established the significance of financial inclusion to economic growth, and reported efforts of the banks and regulators at dampening financial exclusion, however authors are also unanimous in pointing out that financial exclusion still exist and more efforts to reduce it are still required.Manoj (2015), concluded that amid general increasing trend among all categories, the percentage of rural branches on total branch network is declining, Shankar (2013), pointed out that micro finance institutions recorded some degree of success in penetrating and breaking down barriers to financial inclusion, however the penetration is skewed and exclude some areas, in addition, in regions with high level of micro finance institution operation, some individuals are still excluded on account of their method of operation, similarly, Garg and Agarwal (2014) were of the opinion that efforts by stakeholders at financial inclusion is yet to yield desired results, they preached that regulators has to create suitable regulatory environment that will keep the interest of all stakeholders. Sharma and Kukreja (2013) opined that financial inclusion is playing a significant role in inclusive growth but is yet to yield the desired results, they are of the opinion that mere opening of zero balance bank account is not the end of financial inclusion but winning the trust of the rural poor through building strong relationships with community based financial ventures and cooperatives will improve financial inclusion. Conclusions of studies based on the Nigerian economy also established the importance of financial inclusion in achieving economic growth, Mbutor and Ibrahim (2013), concluded that granting loans will boost investment and dampen inflation, similarly, loan exposure of rural branches of commercial banks has inverse relationship with inflation, but number of bank branches has a disturbing negative sign which is symptomatic of unnecessary cluster of branches in particular locations where their services are enjoyed by few customers. By the same token Nkwede (2015) concluded that financial exclusion as exhibited by non-availability of financial services, non-accessibility of banking and financial services and underutilization of banking and financial services in Nigeria distort economic growth of the country. Nwofor and Yomi (2018) and Onaolapo (2015) both agreed that

financial inclusion has significant effect on economic growth but disagreed on the effect of financial intermediation on financial inclusion. Nwofor and Yomi (2018), concluded that financial inclusion has significant impact on economic growth in Nigeria, they however pointed out that financial intermediation has not significantly influenced financial inclusion in the country. Onaolapo (2015) concluded that first, there is a significant relationship between financial inclusion and poverty reduction in Nigeria, second, there is a significant relationship between financial inclusion and economic growth and third that there is a significant relationship between financial intermediation and financial inclusion in Nigeria.

III. Methodology

This study model was adapted from the work of Nkwede(2015) wherein gross domestic product was regressed on deposit money banks loans to small scale enterprises, deposit of rural banks branches, and amount of loan by rural bank branches, bank branch spread and inflation. The adapted model is thus

MGDP= F(CPSGDP,M2GDP,DR,CR,NOB) ………………………………………1

Taking logarithm forms to correct for differences in measurements the model becomes

LMGDP=F(LCPSGDP,LM2GDP,LDR,LCR,LNOB)……………………………….2

The vector error correction form for the equation of focus will thus be

$LMGDP_t = \sum_{i=1}^{k}\alpha_i(LMGDP)_{t-1} + \sum_{i=1}^{k}\beta_i(LCPSGDP)_{t-1} + \sum_{i=1}^{k}\lambda_i(LM2GDP)_{t-1} + \sum_{i=1}^{k}\gamma_i(LDR)_{t-1} + \sum_{i=1}^{k}\delta_i(LCR)_{t-1} + \sum_{i=1}^{k}\Phi_i(LNOB)_{t-1}$ …………………………………………..…..3

Where L is the logarithm

MGDP is GDP (gross domestic product) from the manufacturing sector

CPSGDP is the percentage of credit to private sector on GDP

M2GDP is the percentage of money supply on GDP

DR is deposit of rural branches

LCR is loans of rural branches of commercial banks

NOB is number of commercial bank branches

$\alpha\beta\lambda\delta\Phi$ are the parameters

t represents time and k(2) is the lag length.

The vector error correction model was adopted as justified by the unit root analyses using the augmented Dickey Fuller method, the granger causality test was used to establish causal relationship. Secondary data used were obtained from the Central Bank of Nigeria statistical bulletin while the Nigerian economic data used covered between 1981 and 2018.

IV. Results Findings And Conclusions
Table 1: Descriptive Statistics

	MGDP	CPSGDP	M2GDP	DR	CR	NOB
Mean	12.71664	11.19141	14.31631	26608.15	73385.51	3210.838
Median	12.16003	8.211023	12.73591	8360.100	11158.60	2407.000
Maximum	20.11921	20.77330	21.30726	308851.9	988587.9	5809.000
Minimum	6.552817	6.217349	9.151674	19.72322	35.90000	991.0000
Std. Dev.	4.590041	5.382409	3.921926	59475.00	212096.4	1649.079
Skewness	0.238727	0.843716	0.566495	3.576077	3.394882	0.447847
Kurtosis	1.540708	1.895860	1.789980	16.02003	13.30865	1.655108
Jarque-Bera	3.634473	6.269269	4.236215	340.2065	234.9025	4.025294
Probability	0.162474	0.043516	0.120259	0.000000	0.000000	0.133634
Sum	470.5156	414.0822	529.7034	984501.4	2715264.	118801.0
Sum Sq. Dev.	758.4651	1042.932	553.7341	1.27E+11	1.62E+12	97900593
Observations	37	37	37	37	37	37

Source: Authors computation 2019.

CR had the highest range with a maximum of N988, 587 million and a minimum of N35.9 million,Deposits of rural branches had the highest spread around its mean with a standard deviation of N59, 475Million, all the variables are positively skewed with MGDP and NOB being moderate and others being highly skewed. Outliers are evidenced in DR and CR while the others are without.

Test of significance and hypotheses

Table 2: Regression Results

VARIABLES	COEFFICIENTS	PROBABILITY
D(LCPSGDP(-1))	0.286480	0.1297
D(LM2GDP(-1))	-0.135313	0.6776
D(LDR(-1))	0.001819	0.9245
D(LNOB(-1))	-0.133363	0.7127
D(LCR(-1))	0.047563	0.2451
R^2	0.291637	
DURBIN WATSON	1.69	
F STATISTICS	0.630	0.799

Source: Authors computation 2019.

Table 2 reveals that none of the variables is significant at 5% level. A one percent change in one period lagged value CPSGDP and M2GDP caused 28.6% and -13.5% changes in MGDP respectively while a 1% change in one period lagged value of DR, LR and NOB caused 0.1% 4.7% and -13.3% changes in MGDP respectively. The coefficient of determination indicates that 29% of variances in manufacturing industry GDP is caused by changes in the models independent variables. This is corroborated by a non-significant F statistics at 0.63. The study therefore accepts the null hypothesis that jointly, the models variables do not have significant effect on manufacturing GDP in Nigeria within the sample period.

Impulse Response

Table 3: RESPONSE OF Log MGDP TO CHOLESKY (d.f.ADJUSTED) ONE STANDARD DEVIATION

Period	LCPSGDP	LM2GDP	LDR	LNOB	LCR
1	0.000000	0.000000	0.000000	0.000000	0.000000
2	0.018560	-0.017371	-0.001177	0.010566	0.015316
3	-0.010669	0.009278	-0.007562	0.021154	-0.019690
4	-0.015867	0.004915	-0.006770	0.012349	-0.032473
5	-0.008864	-0.008373	-0.016260	0.010620	-0.020858
6	-0.000163	0.003706	-0.018598	0.012996	-0.015690
7	0.007060	0.009999	-0.017430	0.016691	-0.022929
8	0.008573	0.012228	-0.015200	0.012238	-0.022788
9	0.003835	0.014453	-0.017443	0.009150	-0.018002
10	0.004245	0.012294	-0.017167	0.006688	-0.018100

Source: author's computation 2019

A cholesky one standard deviation shock in financial inclusion indicators have no immediate effect on manufacturing GDP but tends to increase over time, however, shocks in deposit from rural branches (DR) had a progressively negative influence on log of MGDP from period 2 to period 10, innovations in log of NOB had a positive and near normal influence on MGDP, finally, shocks of CR had positive influence in the short run but reduced to negative influences from period 3 to period 10.

Variance decomposition

Table 4 : Variance Decomposition Of Log of MGDP

Period	S.E.	LMGDP	LCPSGDP	LM2GDP	LDR	LNOB	LCR
1	0.119372	100.0000	0.000000	0.000000	0.000000	0.000000	0.000000
2	0.159148	96.07628	1.360022	1.191306	0.005470	0.440772	0.926153
3	0.193272	94.41526	1.226900	1.038206	0.156813	1.496896	1.665926
4	0.217341	92.34734	1.503182	0.872136	0.221025	1.506549	3.549772
5	0.230448	91.38364	1.485018	0.907773	0.694471	1.552410	3.976689
6	0.245415	91.11628	1.309446	0.823224	1.186617	1.649267	3.915163
7	0.261380	90.32705	1.227343	0.872063	1.490773	1.861751	4.221023
8	0.273877	89.69237	1.215878	0.993635	1.665840	1.895387	4.536891
9	0.284901	89.32189	1.141728	1.175595	1.914250	1.854688	4.591854
10	0.295573	89.12187	1.081402	1.265249	2.115846	1.774377	4.641252

Source: author's computation 2019.

100% of forecast error variance in log of MGDP is accounted for by itself in period one, this influence is still large at 89% in period 10 with all other variables accounting for just 11%, 6% of forecast error variance in MGDP was accounted for by financial inclusion in the short run which amplified to about 9% in the long run and loan of rural branches of commercial banks (CR) accounted for the highest influence on the average.

Table 5: VEC Granger Causality Test- Probabilities

	Dependent	MGDP	CPSGDP	M2GDP	DR	NOB	CR
MGDP			0.2450	0.2899	0.1440	0.9080	0.3936
CPSGDP		0.2609		0.4876	0.0252*	0.3821	0.6463
M2GDP		0.7772	0.0131*		0.8184	0.2478	0.8355
DR		0.9937	0.5724	0.8549		0.4551	0.0273*
NOB		0.8178	0.1844	0.2536	0.1202		0.3490
CR		0.4306	0.1098	0.2611	0.9022	0.4433	

Asterisked figures were significant.
Source: author's computation 2019.

Table 5 reveals that M2GDP granger caused CPSGDP, and CPSGDP granger caused DR, in addition deposit of rural branches of commercial banks (DR) granger caused loans of rural branches of commercial banks. There is the absence of causal relationship between all other possible combinations.

IMPLICATIONS OF FINDINGS
The number of commercial banks branches had the highest coefficient although negative,this is similar to the findings of Mbutor& Ibrahim(2013), theoretically, financial intermediation should encourage production through the provision of needed capital, this undesirable negative influence may be due to the preference of commercial banks in Nigeria for short term loan assets and overconcentration in urban centers, shocks in number of commercial bank branches had the highest positive influence on the contribution of the manufacturing industry to gross domestic product(MGDP) in the long run, it was also revealed that changes in deposits of rural branches of commercial banks (DR) comes before changes in loans of rural branches of commercial banks (LR). CR account for the highest positive influence on MGDP which is corroborated by the variance decomposition.

V. Recommendations
Despite increase in the number of commercial banks branches in Nigeria over the sample period, its desired positive effect on production is yet to be felt, this may be due to yet inadequate branches, bureaucratic bottlenecks in granting loans and advances to rural entrepreneurs and preference of commercial banks in Nigeria for short term loan assets. The policy direction is for the government to institute policies aimed at increasing the number of financial intermediation service providers in the form of bank agents especially in the rural areas. These bank agents should be adequately empowered to attract deposit at favourable terms and grant loans to micro small and medium scale enterprises at cheap interest rates. Zero or minimum balance savings account that enjoys debit cards facilities and credit or overdraft facilities at minimal charges should be encouraged, opening of such account should be made less strenuous with reduced documentation and relaxed Know Your Customer requirements. In addition, financial institutions should encourage, monitor and nurture self-help thrift groups among financially excluded segments, loans granted to the group members should be based on deposits mobilized from the group, and members in the groupshould determine loan beneficiary, this way, financial institution can leverage on groups peer pressure to minimize credit risk. These suggestions will stimulate deposits from rural areas leading to increased loans granted to rural dwellers and ultimately improves the contribution of the manufacturing industry to the gross domestic product through rural entrepreneurs.

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