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Financial inclusion and household welfare nexus in Nigeria: new evidence from a gendered analysis

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ABSTRACT

This study investigates the relationship between financial inclusion and household welfare in Nigeria from a gendered perspective, using data from the 2018/2019 Nigeria General Household Survey comprising approximately 5,000 households. Household welfare is measured using total household consumption, categorized into high and low consumption levels, while financial inclusion is captured through bank account ownership, formal savings, informal savings, and insurance ownership. The study employs binary logistic regression, with separate estimations for male- and female-headed households. The findings show that formal financial inclusion variables significantly increase the likelihood of higher household consumption in the overall sample and among male-headed households.

KEYWORDS
Financial inclusion; household welfare; Nigeria

Introduction

There is a growing array of literature and research significantly proposing a novel form of economic growth, cohesively known as inclusive growth.[1–4] This concept became a central point of call in development literature and activities to address the growing wealth and income inequality, acknowledging its evident and unsustainable impact on human well-being and prosperity, with a focus on economic development.[1] Recently, Oliver De Schutter, the United Nations' (UN) special rapporteur on extreme poverty and human rights, criticized the United Kingdom (UK) government for the alarming number of people living in poverty – over a fifth of the population, or about 14.4 million people.[5] He pointed out a troubling trend in many Organization for Economic Co-operation and Development (OECD) nations where Gross Domestic Product (GDP) growth has coincided with rising inequalities and persistent poverty. To combat this, he called for an inclusive economy that prioritizes supporting low-income households and ensuring access to employment for all.[5] This news underscores the growing prominence of poverty and inequality globally and the need for inclusive growth strategies to improve the well-being and living standards of all members of society. It is upon this novel yet extremely important concept this project work is based.

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Household welfare is the ultimate goal of any inclusive growth strategy. Musyoka[6] defines it as the general state of well-being, measured by factors such as standard of living, health, and happiness. Historically, it was described as a "composite level of gratification of all individual preferences" in the household.[7] Consumption-wise, household welfare refers to a household's monetary control over goods and services. It is also gauged by spending on both food and non-food items, and the extent of poverty.[8] Despite challenges in accurately measuring household welfare, it is typically assessed through per capita income, household consumption expenditure, poverty, and income inequality. For instance, household consumption expenditure represents the level of expenses made on goods and services consumed within a home. Poverty simply indicates a lack of adequate household welfare. Income inequality signifies the disparity in opportunities and essential services that potentially hinder the overall well-being of low-income households.

Africa, especially Nigeria, its giant, is earmarked by a low standard of living and consequently household welfare. The welfare indicators in Nigeria are a testament to this fact. In 2022, the Nigeria Bureau of Statistics reported that 133 million people lived in multidimensional poverty accounting for 63% of the national population.[9] According to the World Bank's Poverty & Equity Brief for Nigeria, the share of Nigerians living in extreme poverty rose from 34.7% in 2018/19 to 41.8% in 2022/23. Nigeria's 2023 global hunger index is at 28.3 placing the nation's position at level "serious" at the global hunger scale,[10] and the 2022 Human Development Index was placed at 0.534.[11]

A robust body of literature convincingly demonstrates that financial inclusion significantly enhances household welfare. Financial inclusion, through access to formal financial services, enhances household welfare by fostering increased investments in education,[12] empowering women,[13,14,15] increasing household savings and boosting entrepreneurial tendencies.[16] Additionally, it fosters economic growth by facilitating capital access for small businesses[17] and reducing poverty.[18] Financial inclusion has been defined as the use of formal accounts,[19] households' access to and use of financial services,[20] and a situation whereby the majority of the population has broad access to a portfolio of quality financial products and services.[21] Wang and Guan[22] extended their definition of financial inclusion by stating that it does not just include access to formal financial services but also signifies that every member of society can enjoy various types of financial services, such as payment, credit, etc.

Nigeria has a track record of implementing financial inclusion policies that aim to include financially excluded individuals into the finance industry. The procession of policies began in 1977 with a two-phase rural banking scheme,[23] designed to create branches in rural areas, ensuring access to financial services for rural communities. Subsequent financial inclusion policies include the Agricultural Credit Guarantee Scheme Fund inaugurated in 1977, the