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Investigating the Financial Inclusion, Domestic Investment, and Financial Development Nexus in Nigeria

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ABSTRACT
Nigeria is a developing nation with a population of over 200 million. Of this aggregate, approximately 106 million are aged 18 years and above. Of this adult population, 70 million live in rural areas, and many do not have adequate access to relevant financial products and services. The proportion of individuals and firms that use or have access to financial services can be referred to as financially inclusive. This study analyzes the impact of financial inclusion and domestic investment on Nigeria's financial development. Multiple regression analysis was employed in this study which spanned over the period, 1982-2021. The empirical results reveal that financial inclusion and domestic investment have positive impacts on financial development; however, domestic investment has a more significant impact to a larger extent. The study recommended that policies should be directed towards creating a more inclusive financial system to improve the current level of financial inclusion to achieve better financial development in Nigeria. This study concludes that governments should formulate policies that boost financial inclusion and investment to deepen the level of financial development in the economy.

Keywords
financial inclusion; financial development; investment, deposits

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INTRODUCTION

Nigeria is a developing nation with a population of over 200 million. Of this aggregate, approximately 106 million are aged 18 years and above. Of this adult population, 70 million people live in rural areas. This indicates that two-thirds of the adult population resides in rural areas, of which 19% do not have formal education and are also limited in their level of financial literacy (Enhancing Financial Innovation & Access (EFInA), 2022). EFInA (2022) further observed that, between 2018 and 2020, entrepreneurship in the formal sector, privately owned businesses, and farming fell by 1%, -0.4% and 3.1%, respectively.

Over time, the financial authorities in Nigeria have enacted policies to ensure that all citizens have access to modern banking systems. For example, in 2005, financial authorities introduced policies that ensured that commercial banks owned and operated branches in rural areas (Kama & Adigun, 2013a). This policy came into effect as a preventive measure after the banking crisis in the 1990s. Prior to 2005, there was great disparity in the number of banks domiciled in urban and rural areas. Urban areas in 2004 had 2765 branches, while rural areas had 722 branches. From 2002 to 2004, the number of bank branches in the urban centers increased by more than 500 branches, while the rural centers maintained the same number until 2005, when the bank consolidation program was implemented (Central Bank of Nigeria, 2018; National Bureau of Statistics, 2021; Wezel & Ree, 2023).

This policy gave birth to microfinance banks that were established to provide loans to micro, small, and medium enterprises. Studies have also shown that well-functioning financial systems serve a vital purpose by offering savings, payments, credit, and risk management services to individuals and firms. The proportion of individuals and firms that use or have access to financial services can be referred to as financially included (The International Monetary Fund, 2014). Anthony-Orji et al. (2019) observed that there has been a major increase in the activities of the financial sector through conscious government efforts. For example, the Central Bank ensured that banks established their outlets in villages to help the elderly have access to banking facilities. Again, the government also enabled these banks to establish their outlets by ensuring that they had the necessary facilities in newly established areas.

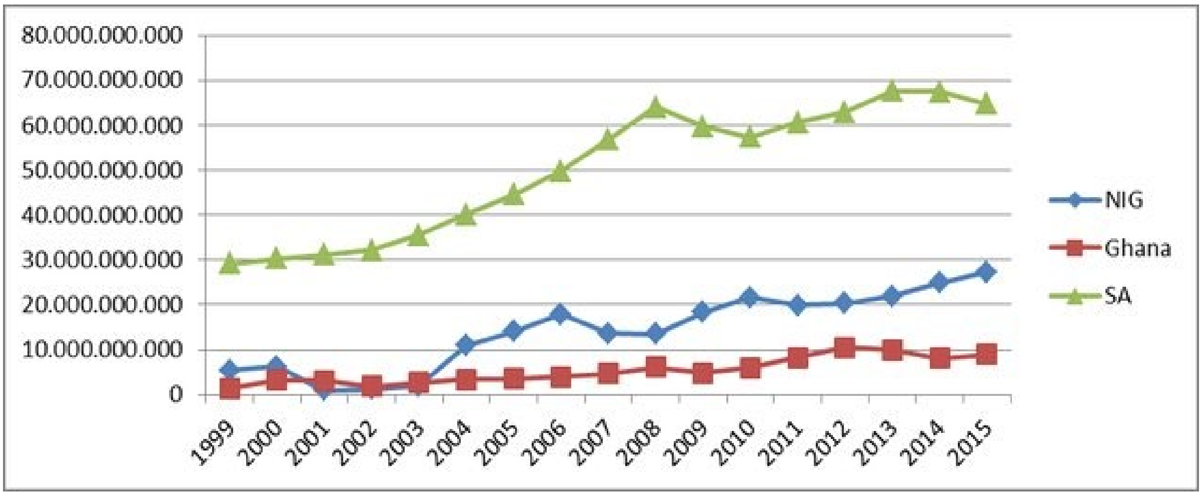
Expanding the financial net has now become another vital channel through which the economy can grow. As observed by Orji et al. (2019), this discovery has been a quantum leap through which government policies are adopted and implemented for better economic prosperity globally. Despite this, there is still a global cash out-of-bank hovering around 54% of the ages 35 and above. This percentage does not even have any form of modern banking services close to them. For continents such as Africa, the percentage is 70%, which is far higher than the global average.

In terms of domestic investment, Akanbi (2012) noted that domestic investment in Nigeria has experienced both economic and political issues. These issues have inhibited the growth of domestic investment. Since 1970, the average growth in local investment has been 11%, and within that period, Nigeria's financial development was less than 5%, and even economic growth at this period was seven percent. Within this period, local investment was unstable but continued to increase. Seven years later, local investment jumped to forty-one percent an increase of over 110 %. It further increased by 25 percent between 1977 and 1993.

This unstable growth in domestic investment could be traced to Nigeria's political situation, which was largely controlled by military coups and indirectly affected investment in Nigeria (Adepoju, 1981; Agbese, 1992; Obioha, 2016). The investment climate in Nigeria has experienced some level of volatility, as shown in Figure 1. However, it is still trailing behind the South African economy (The World Bank, 2018). The figure also shows an upward movement of the investment curve in Nigeria from 2012 to 2015 due to the economic recession that hit Nigeria in 2016.

Figure 1

Trend of domestic investment of Nigeria, Ghana, and South Africa in US$



Source: The World Bank (2018)

Following Kama & Adigun (2013b), a large depository of savings, investable funds, investment, and global wealth generation can be enhanced by providing access to hundreds of millions of men and women across the globe, who are currently excluded from financial services. This is also true for Nigeria, because the accumulation of capital and the rise in investment can occur when low-income earners are given access to financial products and services. This is because low-income earners contribute to a larger share of the population in developing countries, especially in Nigeria (Adedeji & Olotuah, 2012; Kapsos & Bourmpoula, 2013).

It is worth noting that the financial inclusion agenda has become pivotal in many economies (Beck, 2016). Many countries have adopted clear-cut financial inclusion