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ASSESSING THE TRENDS IN FINANCIAL INCLUSION AND CHANNELS THROUGH WHICH IT CAN SPUR ECONOMIC GROWTH IN NIGERIA: A DESCRIPTIVE APPROACH

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ABSTRACT

This study examines the trends of financial inclusion and the mechanisms that underpin economic growth through financial services, products and finance access using data collected from Nigeria's Financial Development Indicators (FINDEX) from 2011 to 2018. Evidence has shown that increased access to and utilisation of financial products and services, such as ATMs and depositor accounts among others have a favourable impact on economic performance. This study reveals that in 2011, the overall access to financial institutions account in Nigeria was just 30%. This percentage increased to 44% in 2014 but later declined to 39% in 2017. This low and dwindling percentage of access and usage of financial means that a lot needs to be done for the economy to benefit most from the financial inclusion. This study recommends that to increase economic growth, more efforts be made to enhance the usage of financial products and services such as electronic transactions, POS, ATM, and mobile banking especially in the rural communities.

1. Introduction

Financial inclusion is a well-known global topic in the twenty-first century. Approximately 1.8 billion individuals are believed to be under banked, including 2.4 billion individuals being financially excluded, whereas businesses and enterprises experience difficulties in interacting with the financial sector. Moreover, most users of financial products might not always have financial services, and even if the services are available, they will not be of an excellent quality, appropriate, or reasonable (Rhyne 2020; Ekong & Ekong 2022). These scenarios may be especially concerning for emerging economies, because of structural constitution, economic and social predisposition have exacerbated economic inequality as well expedited poverty rates to levels that beyond explanation. Nigeria, for example, is among the countries in Sub-Saharan Africa that has the greatest proportion of her population without bank accounts and/or access to financial institutions. Almost 60% of the population is expected to be excluded from financial sector (Asuming et al. 2019).

Generally, The provision of financial services at affordable prices to some economically disadvantaged as well as poor groups is defined as access to finance, as opposed to financial exclusion, which occurs when those services are not available or affordable (Nwanne & Okorie 2015).

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Financial inclusion is also be explained as the share of individuals and firms that access and use financial services. It is essential to note that access to financial services is a necessary, but usage is a sufficient condition for individuals to be financially inclusive. Financial inclusion must be backed up by usage. Access to financial services signifies availability of such services while usage might feature the affordability in terms of costs and other barriers. Such barriers can deter potential users from adopting financial services thereby excluding them. Limited awareness, illiteracy, culture, religion, legal factors, lack of demand may constitute significant obstacles to financial access in emerging countries (Bank & World 2014). Thus, financial inclusion has recently been a top development policy priority globally, attracting the attention of experts and policymakers (Bank & World 2014). Financial inclusion is becoming increasingly important in developing nations, notably in Sub-Saharan Africa (Amponsah et al. 2021). So, Nigeria created the National Financial Inclusion Strategy (FIS) to improve access to and use of financial products and services in the country (CBN 2019, P.12). However, Nigeria's financial inclusion status (access to comprehensive financial services) remains poor (Global Finance 2021). Similarly, Nigeria has one of the greatest nonbankable populations in Sub-Saharan Africa at 61%. As such, this is concerning economically especially when contrasted to other growing countries with comparable populations like Brazil (30%), India (20%), and Indonesia (52%).

Moreover, according to (Amponsah et al. 2021), access to variety of financial services and financial products improves people's lifestyles and opens them investment opportunities. It is argued that to eliminate poverty and enhance welfare of society, individuals must be financially inclusive. Individuals and businesses, especially micro, small, and medium scale enterprises (MSMEs) with full access to suitable and reasonable financial services that fulfil daily transaction requirements are considered financially included. Similarly, low human development and high levels of illiteracy may prohibit a big segment of the population from taking use of financial services that are offered (Arora 2014). Therefore, accessing transaction account that permits individuals and businesses to efficiently and effectively carry out their transactions is a first step toward greater financial inclusion (Marcelin et al. 2021). When certain services like access to bank branches and account openings, are available to the substantial portion of the populace it will enable them to save and use the same for productive investment. The major goal here is that "a large fraction of people should have access to private accounts globally. This study is focused on Nigeria being a country from SSA using dataset on Nigerian financial inclusion for period 2000 to 2022 sourced from the global Findex. For simplicity and easy understanding of this work, this assignment is structured in the following manner: introduction, literature review, methodology and data analysis, conclusion, and recommendation.

2. Review of Literature

Financial planning requires an understanding of how financial inclusion is measured. A holistic measurement of financial inclusion provides for the necessary comparisons between countries and regions to assess finance to promote growth (Bank & World 2014). It also allows for the identifying factors that impede financial access as well as the development of policies to address them to enhance the growth in financial system connection. Authorities and financial professionals could also use the data to assess their regional position in the global financial inclusion development space, which will serve as a roadmap for tactical development and maintenance (Soyemi et al. 2020) However, financial inclusion has received a significant attention in recent times from various researchers. For instance, (Ozili 2018) among others highlighted the significance of modern financial services in determining access to finance. According to this researcher, modern financial services can work well for individuals,

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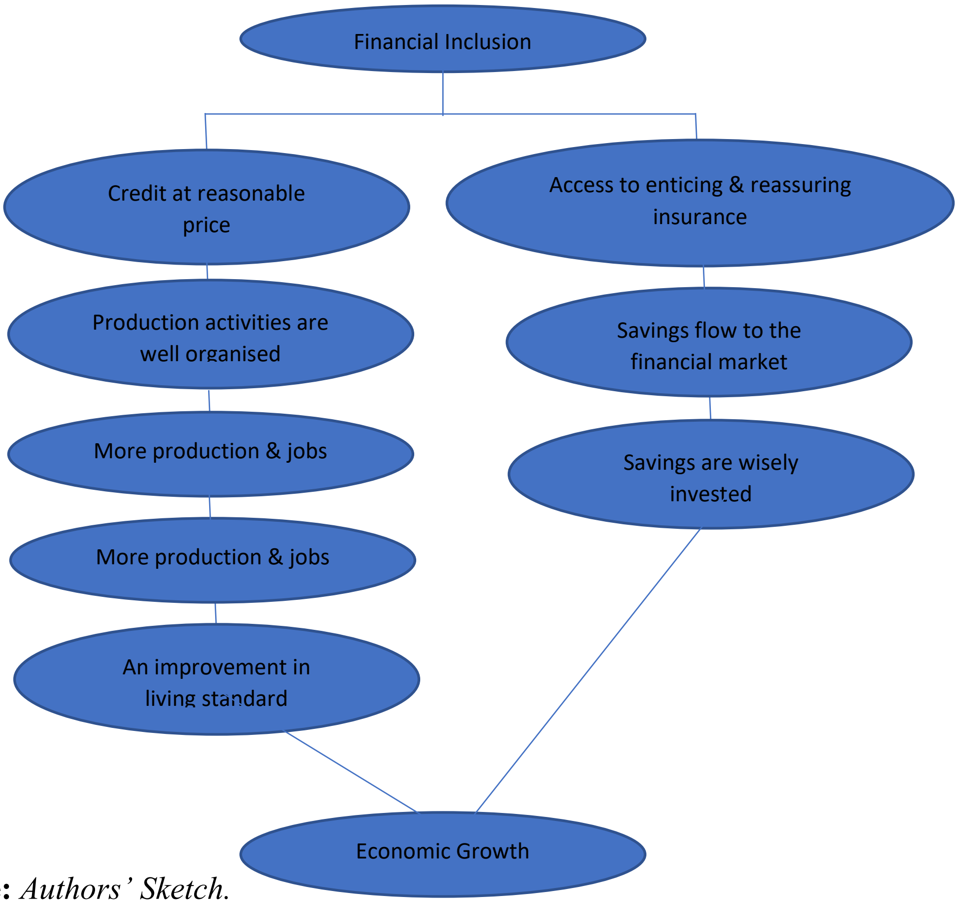
enterprises and the government which will bring greater financial inclusion. Financial transactions and access can be cheaper, easier, and friendly when people have access to sufficient modern financial service. Similarly, strong, and positive relationship exist between access to modern financial services and economic growth (Pradhan et al. 2021). Moreso, (Assuming et al. 2019) examine the influence of interest rate on financial access in sub–Saharan Africa between 2011 and 2014 and the determinants of inclusive finance. According to them, individual and macroeconomic characteristics such as age, education, gender, wealth, GDP growth and availability of financial institutions are important determinants of financial inclusion in SSA so the lending rate.

However, traditional idea of financial inclusion involves supplying of diverse, easy, affordable financial products and services, as well as their use. One of the primary drivers of growth is access to and use of financial services (Asongu et al. 2021). The enterprise is at the heart of long-term development, and all efforts must be made to help rural inhabitants establish and grow businesses. Small and medium-sized businesses have created most jobs globally. According to (Nwanne & Okorie 2015), Rural residents can earn a living and contribute financially to their families and communities if affordable financial services are made available to small, medium, and large business owners. This is also evident in the study conducted by (Soyemi et al. 2020) to examine the interaction between banks, deposits and loans in inclusive finance from rural areas in Nigeria. The result of their findings reveals that; Short-run causation exists between several branches of financial banks, landings to rural areas, and demand deposits from rural areas, all of which increase Human Development Index, (HDI). While eventually their findings demonstrated that the predictor variables of rural lending, percentage of commercial bank branches, rural demand deposit really have a direct influence human development index in Nigeria. (Célerier & Matray 2019) claim that increasing the number of banking institutions in low-income families improves their access to finance and thus reduces poverty, whilst still banked households spend more in durable assets like automobiles, has easier access to loans, and have superior advantage for financial stability. Similarly, (Williams et al. 2017) used pool data analysis and log linear model specification to examine the impact of financial access on economic progress in an emerging economy. Three African countries' records of well-functioning automated teller machines, bank branches, and public spending have been the most accurate indicators of financial inclusion for reducing poverty in those countries, while according to their results a 1percentage increase in the number of Automated teller machines results in a 0.0082 percent increase in gross domestic Product (GDP) and a same decrease in poverty. They believe that to have a greater impact on rural financial inclusion, technology needs to be upgraded. This is well supported by the study conducted by (Nwafor 2018) suggest that the development of low-cost, user-friendly financial products for those who are considered financially excluded in various regions, particularly those living in rural communities, should be facilitated and encouraged by banks in order to improve general well-being and raise GDP per capita in the long run. Furthermore, Government on it part should take necessary steps to guarantee that financial products are reliable, efficient, and resilient, resulting in a more user-friendly banking service and improved financial access (Williams et al. 2017). Investment in a productive industry can be increased when financial products are widely available and accessible. One of the most important determinants of final output in an economy is the amount of capital per worker and the productivity of all the factors that go into it (Ayopo et al. 2020). In another study, (Chuc et al. 2022) examined the influence of financial remittances and access to finance on economic progress in 60 emerging economies around the world using a data between 1996 to 2017. Their findings suggest that financial inclusion in general may exacerbate remittances' growth-boosting impact. In addition, an in-depth examination of two elements of the financial inclusion index yields intriguing results. The influence of remittances on growth may not be realized due to a lack of financial products. Meanwhile, local individuals' real use of financial services is more significant, and this could aggravate the favourable benefits of remittances on growth.

In the other way, income inequalities on gender economic participation are dramatically reduced among low-middle-income people in most developing nations in Africa and Asia because to financial inclusion mechanisms (Asongu et al. 2021). Financial inclusion reduces inequality, resulting in significant income disparities in eastern Indonesia (Erlando et al. 2020).

The significant financial inclusion gender gap in Nigeria is impeding long-term growth. Small-scale farming's gender imbalance stifles agriculture's multifaceted potential for sustainable outcomes. The gender discrepancy in financial access has been blamed on socioeconomic, societal, institutional, legal, and regulatory factors (Adegbite & Machethe 2020). It also appears that government expenditure has a mixed impact on inclusive growth in the presence of informality and financial inclusion. Increasing financial inclusion causes government spending to have the projected positive effect on inclusive growth. As a result, governments should ensure that their expenditure strengthens the shadow economy to increase inclusion and decrease poverty. Furthermore, because robust legal frameworks and minimal rigid processes in the informal sector benefit inclusive growth, they may become a policy goal for increasing inclusivity. To improve the efficiency of government policies promoting fair growth and thereby poverty reduction, an active informal sector is required (Amponsah et al. 2021). Therefore, a schematic of the impact of financial inclusion on economic growth is presented below.

Figure A. A schematic impact of financial inclusion on economic growth



Source: *Authors' Sketch.*

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Figure A above, exhibits how inclusive finance positively affect economic growth. Demand for credit is increased when the financial services are accessible at reasonable cost which in turn encourage primary production in the rural areas (Nwanne & Okorie 2015). With the planned production of primary products, more jobs and employment will be assured, thereby reducing poverty, and improving general living standard (Célerier & Matray 2019). In a similar way, financial inclusion leads to access to enticing and reassuring insurance, increase savings because people are protected by insurance, and this will allow savings to be invested wisely and the result is generally increase in the economic growth (Williams et al. 2017).

3. Theory and Method

This research combines two models with overlapping theoretical foundations. Financial inclusion can lead to increased loans for enterprises and families by addressing information asymmetry (Stiglitz & Weiss, 1981). However, an important aspect of the investigation is establishing applicable theories for inclusive finance. They are access theory, economic deprivation theory, and livelihood strategy theory.

Rather of focusing just on property rights, the access theory suggests that people earn, maintain, and exercise control over their lives through a variety of other means outside property ownership (Ribot & Peluso 2003). The concept of property as a method of ensuring benefits is supplanted by the concept of access. Regarding the notion of relative deprivation theory, it is said that when A compares himself to B, who possesses the material of his desire but does not have anything else, A is "relatively deprived". It's possible that when placed in a position similar to that of B, A, who has higher expectations or who has previously been better off than B, feels deprived, i.e. social inequality (Runciman 1966).

Moreso, livelihood strategy theory looks at how important it is to have assets in life, how they change over time and space, and what kind of stress and strains (environmental, economic, and social) affect these assets (Morse et al. 2001).

4. Methodology

In order to conduct the analysis, the schematic framework shown below was used as a guide in analysing the trend in the financial inclusion, together with data from financial development indicators collected between 2011 and 2018. Because of data limitations, the study's selection of a country and a time period is also influenced by data unaavilability at the time of the study.

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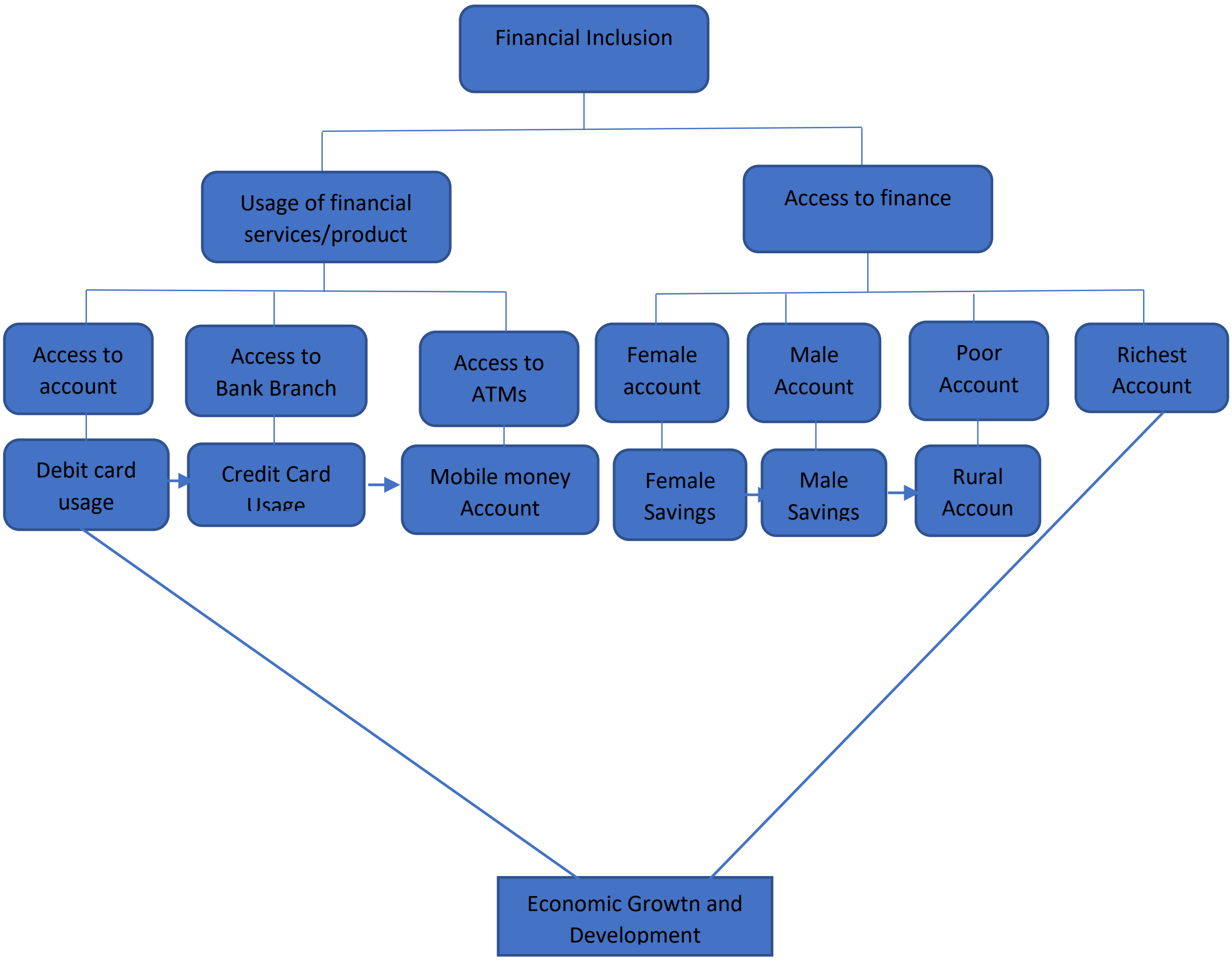

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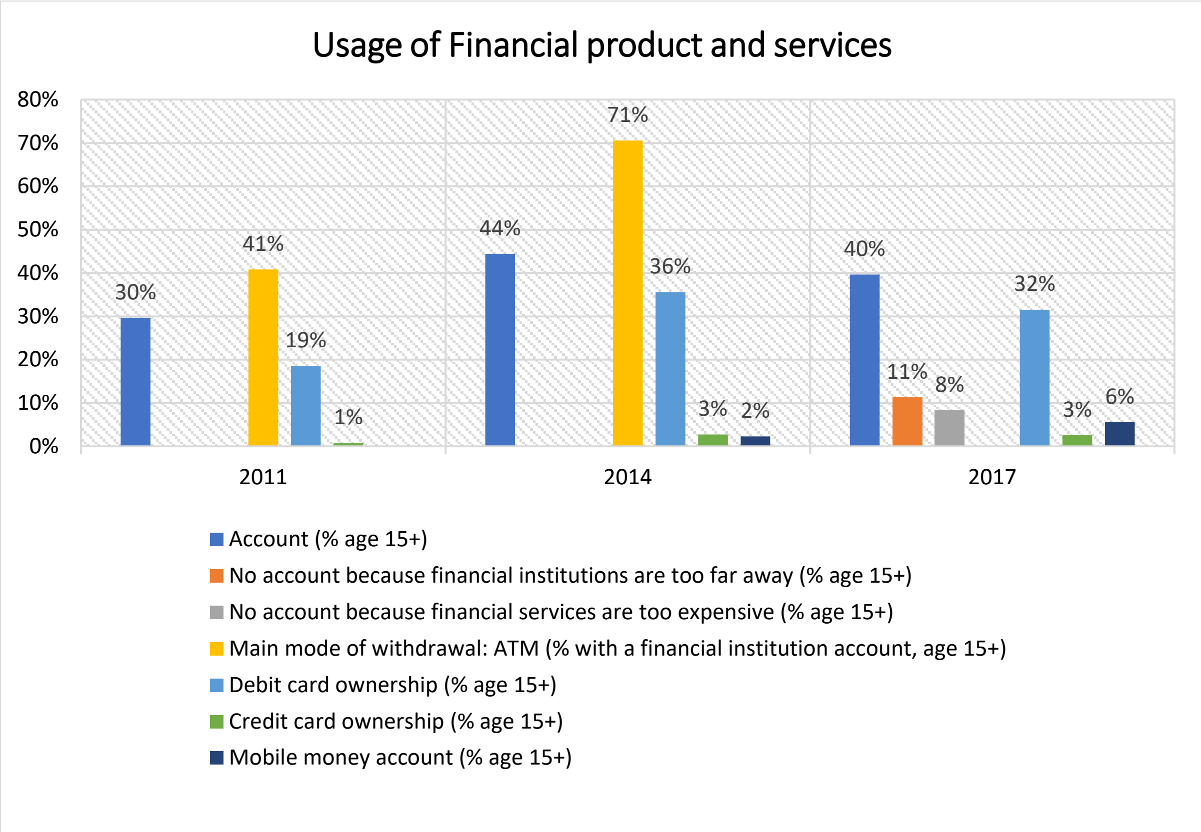
4.1 Data Analysis

Figure A



Using the data from the global financial data repository, the above graph demonstrates several developments in inclusive finance in Nigeria (FINDEX 2017). According to this data people's access to account aged 15 and above has improved from 30 percent to 44 percent between 2011 and 2014 but declined to 40 percent in 2017 but, but between 2011 and 2014, the usage of automated teller machines (ATMs) played a crucial part in explaining the level of access to financial services with an average growth from 41% to 71 percent of the population having access to and using these services supported by the findings of a study conducted by (Marcelin et al. 2021) the availability of ATMs and deposit accounts, as well as the use and accessibility of financial services and products, all have a positive impact on economic performance. However, access to debit card has improved significantly from 19% to 36% of the population having access to debit card between 2011 and 2014 but has decline to 32% in 2017. Other variables, such as credit card ownership, have a minor impact on inclusive finance, with 1 percent, 3 percent, and 3 percent in 2011, 2014, and 2017, respectively.

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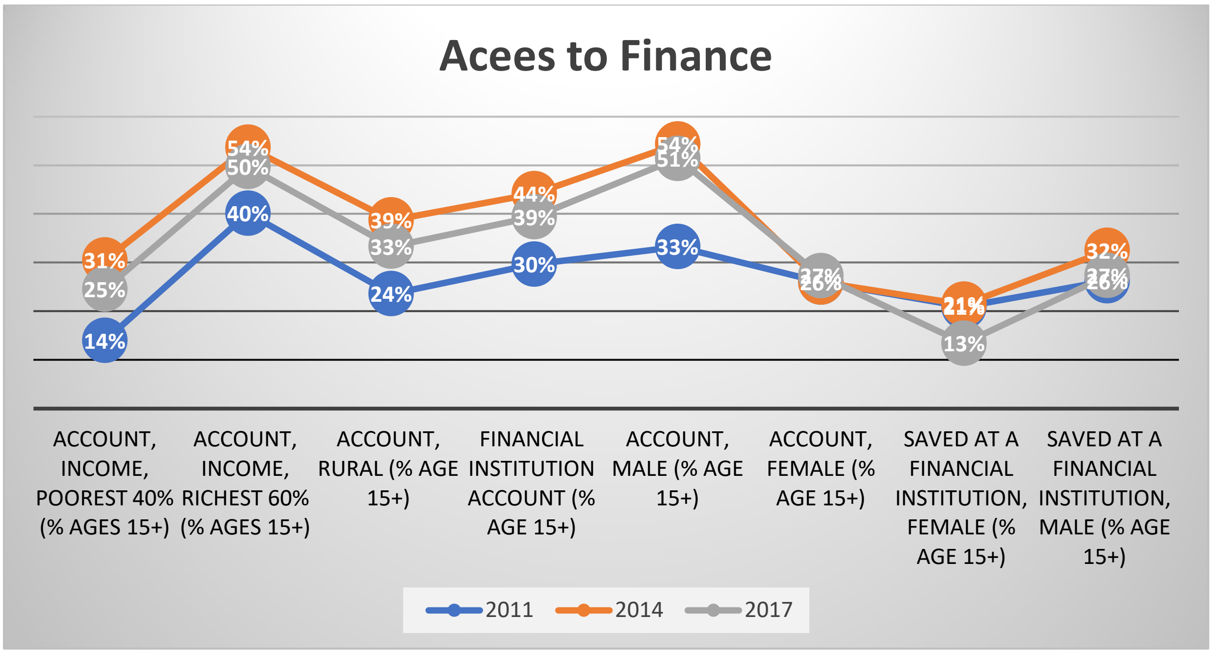
Table F below summarises and concludes the inclusive finance trend in terms of access to finance.
Table F



Financial inclusion increases the accessibility of financial resources and encourages both low- and higher-income earners to save. Furthermore, financial inclusion is a vital step toward more equitable and sustainable growth. It contributes to the developing country's economic growth. For Instance, in Nigeria effective financial inclusion is required to help low- and medium-income earners and disadvantaged individuals rise out of poverty by giving them with customized financial goods and services which has trickledown effect on growth and development.

Therefore, from the figure B which depicted the current trend in financial inclusion in Nigeria using significant determinants of financial. In 2011, access to account and income by poor individuals with ages fifteen and above was 14% while 40% of richest individuals has access to account and income. Moreover, access to financial services by rural individuals with age 15 and above was 24%. However, the overall access to financial institutions account in the country was 30%, while in respect to gender access with age 15 and above was 33% male and 26% female, respectively. Furthermore, in the context of savings capacity of individuals was 21% female as 26% male, respectively.

However, in 2014 access to account and income by poor individuals with ages 15 and above was 31% while 54% of richest individuals has access to account and income. Similarly, access to financial services by rural individuals with age 15 and above was 39%. However, the overall access to financial institutions account in the country was 44%, while in respect to gender access with age 15 and above was 54% male and 26% female, respectively. So also, in the context of savings capacity of individuals was 21% female as 32% male, respectively.

Consequently, in 2017 access to account and income by poor individuals with ages 15 and above was 25% while 50% of richest individuals has access to account and income. Moreover, access to financial services by rural individuals with age 15 and above was 33%. Furthermore, the overall access to financial institutions account in the country was 39%, while in respect to gender access with age 15 and above was 51% male and 27% female, respectively. Also, in the context of savings capacity of individuals was 13% female as 27% male, respectively.

However, to make final inferences on the selected determinant of financial inclusion in Nigerian economy, it was clearly shown that, all the selected variables lie between 11% minimum and 55% maximum. Therefore, policies that can promote and motivate savings especially from feminine gender since it was shown in figure B. Similarly, there is need for policies that can equate both rich and poor individuals in terms of access to financial opportunities and services to attain sustainable economic growth.

5. Conclusion

To increase economic growth, this research recommends that more efforts be made to enhance the usage of financial products and services such as electronic transactions, POS, ATM, and mobile banking especially in the rural communities. There is a need to facilitate financial literacy and engagement of low-income individuals in formal financial services in order to enhance financial inclusive across gender.

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