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## Financial Development and Poverty Alleviation in Nigeria

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### **Abstract**

*Poverty is a global phenomenon that appears to becoming almost increasingly insurmountable which perhaps qualifies it to be one of the 17 SDGs Agenda of the UN targeted to have been fully tackled by the year 2030. Nigeria is one of the nations that has been worst hit by poverty and has been recently declared as the “world poverty capital” which could be partly traceable to low level of financial development typical of many developing nations. This study thus, examines financial development and poverty alleviation in Nigeria from 1981 to 2020. The results show that although banking channel as indicated by financial deepening, and access to credit promotes poverty alleviation, its strength is not strong enough to create any substantial poverty reduction in Nigeria. The development of the capital market on the other hand through increase in market size as reflected by growth in market capitalisation and increase in shareholders wealth promotes poverty alleviation in Nigeria. It is therefore recommended that the monetary authority and government should pursue all-inclusive banking sector development programmes that will create financial access for the grass root, rural poor and the informal sector. The Nigerian Exchange and Securities and Exchange Commission are also encouraged to create veritable platforms and products that will attract the poor and low income earners to the capital market to stem the poverty trend in Nigeria.*

**Keywords:** *Financial Development; Poverty Alleviation; Capital Market; Banking Sector; Financial Deepening; Sustainable Development Goals*

### **Introduction**

The United Nations (UN) member states in order to ensure conscious pursuit of global development signed the Sustainable Development Goal (SDG) with a 17 point-agenda in no specific order of priority as a call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030. Surprisingly the first goal is to eliminate poverty, followed by zero hunger, good health and wellbeing, quality education, gender equality, and reduced inequality as the tenth goal. The quality and quantum of achievement of nations in the second to the fifth

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goals and the tenth are equally reflective of state of poverty levels of any nation. Incidentally, poverty has become a major menace ravaging the fabrics of many developing nations in Africa and Asia and a few other nations in Europe and Latin America. The Sustainable Development Goals Center for Africa report as narrated by Olanrewaju (2022) indicates that the COVID-19 pandemic has caused a humanitarian and economic crisis that poses risks for the attainment of SDGs and compromised the efforts of the “Decade of Action”. The report estimated that an additional 60 million Africans could be pushed into poverty and food insecurity is expected to nearly double, about 110 million African children are out of school, the fragile health care system are being tested and women are at the risk of being left out. Laniran (2022) remarked that although India has just recently overtaken Nigeria as the country with the largest number of people living in extreme poverty, yet it is estimated that almost half of Nigeria’s population of about 200 million lives below the threshold of US\$1.90(792 Naira ) daily. Nigeria accounts for about 14% of the world’s poor while the African continent accounts for two-thirds of the poor and the figure is projected to rise. The new data by the World Poverty Clock (WPC) according to International Centre for Investigative Reporting (ICIR), (March 8, 2022) indicates that 70 million Nigerians are living in extreme poverty, representing 33 percent of Nigeria’s over 200 million population coming after India with 80 million the latest poverty capital of the world, a position Nigeria occupied until the most recent time.

Ogwumike (2002) traced the historical incidence of poverty in Nigeria noting that the number of those in poverty increased from 27% in 1980 to 46% in 1985; it declined slightly to 42% in 1992, and increased very sharply to 67% in 1996 and by 1999 more than 70% of Nigerians lived in poverty. This has been corroborated by Ewhrudjakpor (2008) that there has been a decline in general human living conditions since 1975 as data on Nigeria indicate that from 1980 to 2006, real income per head, private consumption and overall physical, economic, social and psychological well-being has gone below universally accepted level. He opined that the federal government Poverty Alleviation Program, National Economic Empowerment and Development Strategy (NEEDS) (Government of Nigeria, 2005: 16–18) acknowledged that ‘poverty reduction is the most difficult challenge facing Nigeria and its people and the greatest obstacle to the pursuit of sustainable socioeconomic growth.

In Nigeria, according to the World Bank (2022) report “A Better Future for All Nigerians: Nigeria Poverty Assessment 2022”- which brings together the latest evidence on the profile and drivers of poverty in Nigeria, as many as 4 in 10 Nigerians live below the national poverty line. It notes that sluggish growth, low human capital, labor market weaknesses, and exposure to shocks are holding Nigeria’s poverty reduction back. Nigeria aspires to lift 100 million people out of poverty by 2030. Prior to the COVID-19 crisis, around 4 in 10 Nigerians were living in extreme poverty, based purely on a monetary measure. Using the same population estimates as the 2018/19 Nigeria Living Standards Survey, this means that more than 80 million Nigerians were living in poverty before the pandemic, even without data from Borno state where the survey could not be fully carried out. However, projections suggest that the

combined effects of the COVID-19 crisis and natural population growth could leave 100 million people living below the national poverty line by 2022, rationalizing the government's ambitious poverty reduction aspirations. Since Nigeria is home to the largest number of poor people in Sub-Saharan Africa—the world's poorest region—lifting Nigerians out of poverty is vital for “moving the needle” and reducing global poverty (Lain & Vishwanath, 2021).

Despite several strategies adopted by the Nigeria government over the years to tackle poverty, yet the menace of poverty has remained practically almost unsurmountable. Nigeria has achieved reasonable economic growth rates of 4-6% in the last two decades but poverty has remained sticky in the land. Ayodele and Abdulganiyu (2022) has recently concluded that quality of governance may pose a major threat to attainment of the poverty alleviation goal in Nigeria by 2030 given the worsening performances of key macroeconomic indices like exchange rate, inflation, stock prices and oil prices. It thus becomes obvious that poverty an age-long phenomenon in Nigeria and must be addressed from multiple dimensions, one of which is to understand how financial development is related to poverty. From available empirical evidence, for instance, Galor and Zeira, (1993); Aghion and Bolton, (1997); Galor and Moav, (2004) all found that improving capital allocation efficiency and relaxing funding constraints by financial markets, financial development may reduce income inequality through improving collateral use and credit histories. Similarly, Honohan and Beck (2007) suggested that financial depth supports poverty reduction, thus countries with higher financial deepening system have a lower incidence on poverty than others at the same level of national income. Financial inclusion helps prevent the poor from the exploitation of the money lender by ensuring easy access to formal credit. Financial inclusion also ensures the involvement of the excluded population in the financial system; hence financial inclusion ensures their access to the financial system at an affordable cost (Shankar, 2013). Leila (2014) examined the relationship between financial development and poverty reduction in eight (8) MENA countries and found that access to credit for the poor remains a challenge and that the financial development favours the poor. Uddin, Shahbaz, Arouri, and Teulon (2014) study asserted that financial development helps to reduce poverty. They concluded that poverty reduction can be achieved through financial development and by providing loans to SMEs, jobs will be created and poverty reduced. According to Azra, Dilawar, Ejaz, and Waheed (2012), one of the causes of underdevelopment is poverty. Singh and Huang, (2011) opined improvement in the financial sector is more beneficial to the rich, and that lack of access to finance is one of the main reasons for persistent poverty. Dhrifi (2014) posits that financial development has a positive significant effect on growth, nonetheless, there seems to be uncertainty that the growth realized through financial development benefits the poor.

Hence, this study attempts to examine how the financial development perspective could help alleviate poverty in Nigeria by asking some specific questions. First, is financial development relevant for poverty reduction goal of sustainable development agenda? Second, which component of financial sector aids poverty reduction or otherwise – bank based, or market based?

This study is divided into five sections. Section 2 presents the literature review while section 3 contains the methodology, section 4 presents the discussion while section 5 concludes the study.

### **Literature Review**

As it is acknowledged that poverty is multi-dimensional, and that poverty reduction entails many different kinds of change. There is lively and healthy debate about the relative importance of different kinds of development interventions and their different contributions to the overarching objective poverty reduction (Barder, 2009). How financial development affects economic growth and how it helps reduce poverty are clearly related issues because growth is a powerful way to reduce poverty (Bruno, Ravallion, and Squire, 1998). Financial development on the other hand is part of the private sector development strategy to stimulate economic growth and reduce poverty. The Financial sector is the set of institutions, instruments, and markets that facilitates completion of financial transactions and fulfilment of monetary requirements through deposits or investments in it. It also includes the legal and regulatory framework that permit transactions to be made through the extension of credit. Fundamentally, financial sector development concerns overcoming “costs” incurred in the financial system.

The development of an economy requires its financial sector to be developed. And the development of financial sector happens in the process of founding and growth of institutions, instruments and markets that sustain the huge investments and growth which help in reducing poverty. Accordingly, financial development gives better information about possible profitable investments and promotes optimum allocation of capital. In other words, financial institutions help in curtailing cost of acquiring information and effectively implement contracts and execute transactions. Also, the expanding financial access inculcates dynamic efficiency in the system by bringing about a structural change through innovation and welfare gain to the entire economy.

Banerjee and Newman (1993) emphasized that countries with financial market imperfections, that limit access to finance such as information asymmetries and transactions costs, are more exposed to income inequality. This suggest that a negative relationship may exist between financial sector development and income inequality, as finance reduces poverty by improving access to finance and by boosting economic growth.

Jalilian and Kirkpatrick (2002) show that financial development contributes significantly to poverty reduction while Janvry and Sadoulet (2000) using data from 12 Latin American countries between 1970 and 1994, also found that income growth reduces urban/rural poverty, but not inequality.

Charlton (2008) argued that stock market liquidity does not benefit the poor directly in developing countries while Kappel (2010) found that financial development can reduce both income inequality and poverty, but the effect of



financial development on poverty in particular is not only significant in itself, but clearly greater than the effect on income inequality.

Dhrifi (2014) assessed the effect of financial development on poverty reduction in 89 countries using panel data from 1990-2011. The study found that indirectly, financial development effect on poverty is not robust and ambiguous, while the direct effect of financial development, through insurance, access to credit services and savings, is robust to reducing poverty.

Studies on financial development, inequality and poverty reduction in emerging countries have varied outcome. For instance, Honohan (2004) found that a 10% increase in the ratio of private credit to Gross Domestic Product (GDP) could reduce poverty ratios by 2.5–3%. Similarly, Kpodar and Singh (2011) found that with weak institutions at the early stage, bank-based financial systems are better at reducing poverty, however, as institutions develop, market-based financial systems become more effective.

In Nepal, Meena (2004) found that in the rural areas, even with the growth of the financial sector in the post-liberalization period, its penetration has declined as there seems be no linkages between financial development, real sectors and poverty alleviation. While in the Middle East and North African (MENA) countries (Algeria, Egypt, Jordan, Morocco, and Tunisia) and using Turkey and Mexico as benchmark, Erbas and Nothaft (2005) argued that making mortgage loans affordable and available to a large section of the population will enhance poverty reduction policies by serving redistributive income and ensuring growth.

Hafiz, Abdul, Arif and Awais (2011) revealed that both the stock market and banking sector have a negative effect on poverty reduction while Imran and Khalil, (2012) found that the financial development has a positive relationship effect on poverty reduction and concluded that in the absence of a study and active financial sector, the manufacturing sector cannot prevail as a developed manufacturing sector is expected to create more employment opportunities, leading to poverty reduction and economic growth.

In Bangladesh, Uddin, Kyophilavong and Sydee (2012) revealed that there is a long-term balance between banking sector development and poverty reduction. Azra, Dilawar, Ejaz and Waheed (2012) in Pakistan found that financial deepening reduces poverty and that financial deepening measured using domestic credit to private sector and broad money supply have long-run relationship with poverty alleviation, measured using per capita consumption. While, in Iran, Baligh and Pirae (2013) found a negative linear relationship between financial development and income inequality, implying that financial development significantly reduces income inequality.

Azra, Dilawar, Ejaz, and Waheed (2012) asserted that to accelerate investment and economic growth, there is need for strong finance, which is helpful in reducing poverty. George, Lixin and Heng-fu (2006) posits that financial development benefits only the rich and powerful, this is because financial markets are fraught with adverse selection and moral hazard problems and borrowers need collateral. The underprivileged poor, may therefore, find it difficult to access credit facilities even when financial markets are well developed. The rich, in contrast, have properties that can be used as collateral and benefit more as the financial sector develops. Thus, if financial development improves access for the rich, but not the poor, it might increase poverty and worsen inequality. Similarly, Dhrifi (2014) posits further assumes that financial development brings about income inequality which accompanies increased growth rate. The reason is that, commercially, banks give loans to households that can assure adequate certainty and guarantee that the loan will be repaid. Whereas, the poor household, constituting the most underprivileged quintile of the society lack the necessary guarantees. Hence, they are excluded from the formal financial system, which implies that the rich have adequate guarantee and safeguard which will enable them have access to credit and benefit from the improvements in the financial system. Hence, this scenario may aggravate inequalities between the richest and poorest quintiles of the economy.

According of EFINA (2014), financial services rendered by deposit money banks (DMBs) are accessed by 36.3% adults, while 12.3% have access and use of formal financial services/products not supplied by DMBs. Similarly, 11.9% have access or use of unregulated financial institutions such as savings clubs, cooperatives crowdfunding, “esusu”, “ajo” or money lenders; as well as remittances (through formal channels) while 39.5% are without formal or informal financial products, hence, completely financially excluded. When compared to other countries in Africa, Nigeria is lagging behind as 80% and 67% are served by formal financial services in South Africa and Kenya respectively (EFInA, 2014). Olaitan (2006) observed that the active poor inability to obtain credit facilities from formal institutions leaves them with no other option than to borrow money from local money lenders and informal institutions at high interest rates, hence, furthering financially excluding the poor.

Furthermore, Sehrawat and Giri (2015) in India investigated the finance-inequality nexus between 1982-2012, the result of the study suggests that financial development worsens the income inequality. Raju and Yifei (2015) in a study of 37 countries in Sub-Saharan Africa from 1992-2006 found that without strong property rights, financial deepening could widen income inequality and increase poverty. Jaunch and Watzka (2015) analysed the relationship between financial development and income inequality among 138 developed and developing countries from 1960-2008. After controlling for country fixed effects and possible endogeneity problems, the study found that financial development increases income inequality.

In Nigeria, Adeyemo and Alayande (2003) found that geography and level of education contribute significantly to explaining poverty in Nigeria. Obayelu and Awoyemi (2012) found that household size contributes significantly to poverty while Fowowe and Abidoye (2012) opined that financial development have insignificant impact on reducing poverty while trade openness and low inflation supports poverty alleviation. Dandume (2014) revealed that financial sector development does not reduce poverty in Nigeria, since an increase in loanable funds due to financial sector development does not have significant effect on poverty reduction. Similarly, Dauda and Makinde (2014) found that economic growth has strong indirect effect on poverty reduction in the short run but due to the adverse effect of income inequality it may be detrimental to the poor in the long run. Furthermore, the relationship between poverty and the financial deepening is negative and significant. Contrary to the general belief, the study concluded that credits to private sector have failed to cause a reduction in the poverty incidence in Nigeria.

The number one goal of SDG is to reduce poverty rate among nations and close the poverty gap between the rich and the poor. Reducing income inequality and poverty i.e. narrowing income gap between the rich and the poor is thus obtainable in Nigeria like Denmark which ranks 4th in its success at reducing income inequality among 34 OECD (Organization for Economic Cooperation and Development) countries according to (SBD Index, 2016).

Haan, Pleninger and Sturm (2021) investigated the relationship between financial development and poverty. They proxy financial development with the ratio of private credit to GDP or an IMF composite measure while poverty was measured with poverty gap, i.e. the shortfall from the poverty line. The estimated fixed effect result showed that financial development does not have a direct effect on the poverty gap. However, as financial development leads to greater inequality, which, in turn, results in more poverty, financial development has an indirect effect on poverty through this transmission channel.

Ayodeji and Abdulganiyu (2022) examine the effect of governance on poverty level in Nigeria based selected macroeconomic variables and analysed with the covariance technique. Findings from the study show that governance plays a major role in explaining the variations in poverty level within 2010 and 2021 as indicated by surge in inflation rates, more significant fluctuations in exchange rates post 2015 corresponding to the period the present administration has been in government. The study submitted that governance pattern contributed to the decline in economic performance in recent times and the decline is more evident in the inflation rates and exchange rates fluctuations, the low oil prices, and the coronavirus pandemic that the current administration experienced notwithstanding.



**Methodology**

This study adapts the approach of Quanda and Rongda (2015) and Uddin, Shabbaz, Arouri and Teulon (2014) by measuring financial development using both banking sector indices and capital market indices from 1981-2020. The yearly data were obtained from Central Bank of Nigeria (CBN) Annual Statistical Bulletin (2020) and World Development Indicator (2020). The banking sector was measured using money supply which explains the level of monetization of the economy and financial depth (Adegbite & Oke, 2008), credit to private sector- which also measures the extent by which the banking sector makes funds available to households and firms and also measures financial depth while total bank saving was also used to capture the amount the banking sector could generate from the populace since mobilization of saving is a cardinal role of banks especially the accumulation of small savers money.

Similarly, the capital market is measured using stock market capitalization and total value of stock traded to capture the size of the capital market and its liquidity relative to the economy and is an indicator of the efficiency of the capital market. Poverty in this study is measured using both household final consumption expenditure as a percentage of GDP (HHFC) and private consumption per capita (PCPC) (Quartey, 2005; Odhiambo, 2009b). This definition is consistent with the definition of World Bank which defines poverty as "the inability to reach the subsistence level of life" measured in terms of basic consumption needs (World Bank, 1990). Private consumption per capita measures the standard of living of the populace. Model 1 and 2 below depicts the relationship between financial development and poverty alleviation. The descriptions of the variables and their measurements are presented in Table 1 below.

$$PPCC_t = (\alpha_0 + \beta_1CPS_t + \beta_2MS_t + \beta_3TS_t + \beta_4TVT_t + \beta_5MCAP_t + \mu_t).....1$$

$$HHFC_t = (\alpha_0 + \beta_1CPS_t + \beta_2MS_t + \beta_3TS_t + \beta_4TVT_t + \beta_5MCAP_t + \mu_t).....2$$

**Table 1 Variables Description and Measurement**

Variable Type	Symbol	Description	Measurement	Explanation
Dependent	PCPC	Private consumption per capita	Total private consumption as percentage of GDP in year t.	The amount the banking sector could generate from the populace since mobilization of saving is a cardinal role of banks especially the accumulation of small savers money.
	HHFC	Household final consumption	Total household final consumption expenditure as a percentage of GDP in year t.	A measure of poverty. A measure of all goods and services including durable products (such as cars, washing machines, and home computers) purchased by households. It excludes purchases of dwellings but includes imputed rent of owner-occupied dwellings. WDI
Independent	CPS	Credit to private sector	Credit to private sector as a percentage of GDP in year t	Measures the degree to which the banking sector of the economy provides access to credit for business and personal finance.
	MS	Money supply	Broad money supply as a percentage of GDP in year t	A measure of financial deepening and monetisation of the economy.
	TS	Total savings	Total savings as a percentage of the GDP in year t	The amount savings mobilised by the banking sector through savings deposits which enhances financial accumulation for small savers.
	TVT	Total value traded	Total value of stocks traded as a percentage of GDP in year t	A measure of liquidity of the stock market relative to the size of the economy.
	MCAP	Market capitalisation	Total market capitalisation value of stocks as a percentage of GDP in year t	A measure of size of stock market relative to the size of the economy.

## Results and Discussions

This section presents the descriptive statistics of the variables, tables, graphs and the regression result obtained. The descriptive statistics of the variables employed in the study are presented in Table 2.

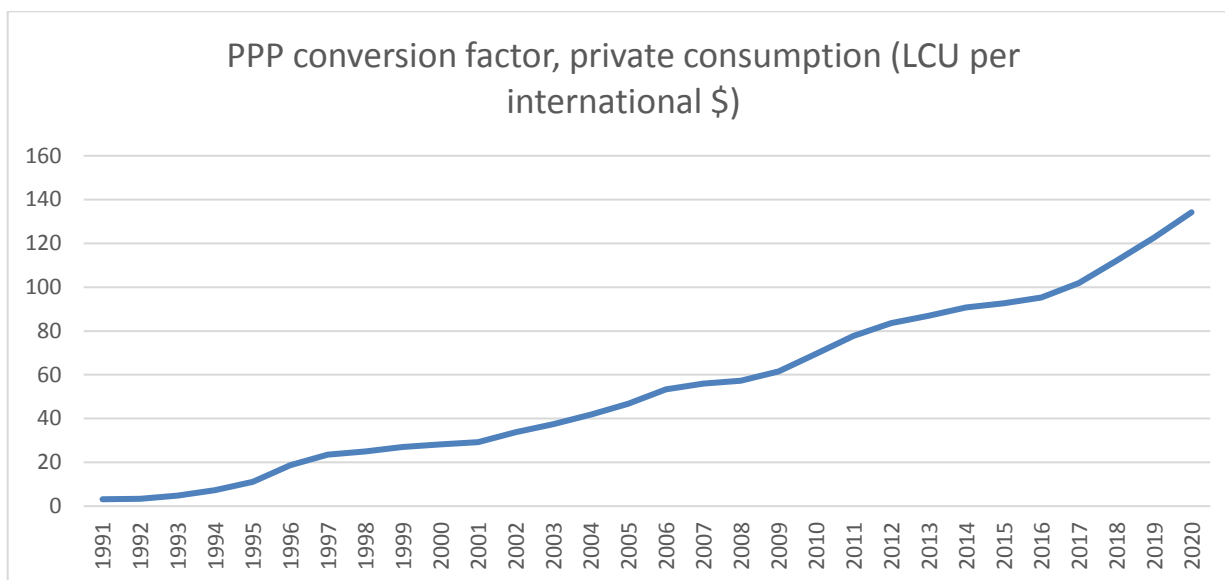
**Table 2: Descriptive Statistics**

	PPCC	HHFC	CPS	MS	TS	VT	MCAP
<b>Mean (%)</b>	1263.9970	68.6537	12.8433	17.2582	8.8244	10.6606	12.8129
<b>Median</b>	1285.6630	68.8008	10.9166	16.5688	7.9278	3.6151	6.7291
<b>Maximum</b>	1737.4970	84.1969	36.8933	37.9568	23.2453	69.1110	63.8112
<b>Minimum</b>	788.0067	52.5461	5.9171	8.5770	3.3356	0.4436	3.3484
<b>Std. Dev.</b>	297.7111	7.69414	6.5476	5.8383	3.8263	15.0128	12.5732
<b>Skewness</b>	0.0821	-0.2271	1.8779	1.6559	1.7003	2.4117	2.2723
<b>Kurtosis</b>	1.6720	2.4419	6.8807	6.8680	7.2311	8.9398	9.0532
<b>Obs.</b>	40	40	40	40	40	40	40

*Note: PCPC- Private Consumption Per Capita; HHFC- Household final consumption expenditure; CPS- Credit to Private Sector; MS- Money Supply; TS- Total Bank Saving; VT- Total Stock Value Traded; MCAP- Market Capitalization*

Table 2 shows that the average banking sector credit to the private sector relative to the size of the economy (CPS) is about 12.84%, money supply is 17.26% while savings ratio is 8.82%. On the other hand the value of shares traded (VT) is about 10.66% while the market capitalization (MCAP) relative to the size of the economy is 12.81%. These statistics show that the Nigerian banking sector is relatively underdeveloped as indicated by low level of credit to the private sector, low financial deepening, and low level of savings. The evidence from the capital market sector also suggests low liquidity and small size of the Nigerian capital market. The Nigerian financial system is underdeveloped and there is no strong evidence to suggest that the Nigerian financial system is bank or market led.

The measures of poverty- household final consumption expenditure as a percentage of GDP is about 68.65% while PCPC is N 1,263.9974 on the average from 1981 -2020. It also reveals that the capital market indices of the Nigerian Stock Exchange is relatively unstable as indicated by the standard deviation. It was also discovered that all the variables are positively skewed except for HHFC and the variables produces extreme outliers based on the kurtosis value except the measures of poverty.



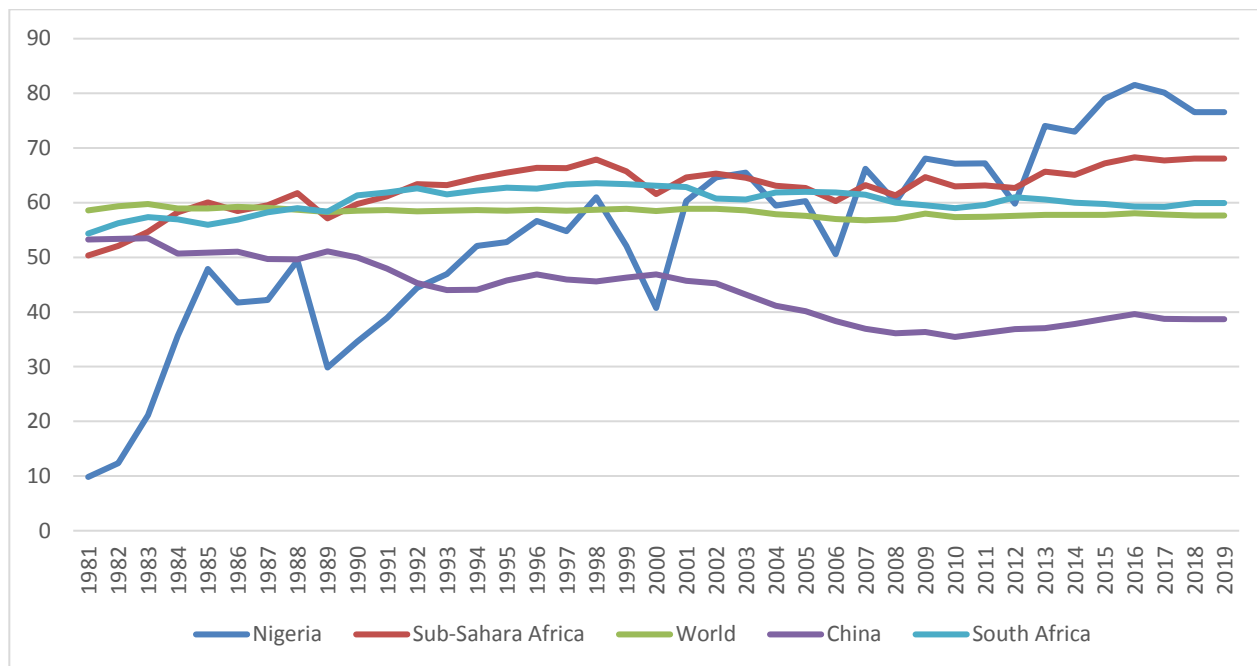
**Chart 1: PPP conversion factor, private consumption (LCU per international \$)**

Chart 1 shows that private per capital consumption in billion dollars. It is noted that there has been a consistent growth in private consumption over the period. Private consumption was at its peak in the 2020 with an estimated value of 134.21 billion US dollars. Noticeable is the fact that periods of high private consumption follow another upright flow. This suggest that private household consumption have been increasing consistently over the period observed.

**Table 3: Household final consumption expenditure (% of GDP)**

Period	1981-1985	1986-1990	1991-1995	1996-2000	2001-2005	2006-2010	2011-2015	2016-2020
NGA	57.3125	55.7850	55.0971	55.5842	55.9447	69.4786	55.6711	76.5807
SSA	58.7102	57.0211	56.4753	57.6753	57.4705	65.1414	57.2225	68.0554
WORLD	57.5391	55.8413	54.9113	55.6077	55.9748	57.3982	55.6620	57.8216
CHINA	57.8049	55.5723	54.7635	56.0147	56.0388	36.1486	55.6856	38.7404
SA	56.1148	54.2528	53.0943	53.9381	54.3450	60.7565	53.9970	59.2348

Source: WDI (2022)



**Chart 2: Comparative Trend of Household final consumption expenditure (% of GDP)**

*Source: World Development Indicators, 2020*

A comparative analysis of the trend in household final consumption expenditure as a percentage of GDP shows that Nigeria has an increasing growth in household final consumption expenditure as a percentage of GDP but highly volatile. It rose from its lowest 9.83% in 1981 to 47.87% in 1985 before declining steadily to 29.88% in 1989, a period coinciding with the Structural Adjustment Programme adoption. It then subsequently assumed an upward trend but not without swings reaching a major peak of 61% in 1998 before declining again to 40.72% in 2000 being its second lowest since 1980. It has subsequently been trending upward achieving 81.54% in 2016 and 76.58% by 2019. Despite this, poverty has remained unabated in Nigeria. Clearly, the poverty trend in Nigeria is remarkably high and bumpy with its rich natural resources. This confirms the position of Organization of Islamic Countries (OIC), (2007) that Nigeria's poverty indicators have remained scattered over time, while there is some evidence that Nigeria's poverty has increased over time. This is also like what is obtained in Sub-Saharan Africa (SSA) as periods of high household final consumption expenditure as a percentage of GDP are sharply followed by sharp falls. This trend may have been dominated by Nigeria being a country in Sub-Saharan Africa, hence having significant effect on the overall Household final consumption expenditure in the region. On the other hand, when compared to a

China, the most populous country in the world, it is observed that the trend for China has been low but relatively stable, and like the trend for the world and South Africa (SA), with a stable Household final consumption expenditure as a percentage of GDP.

Table 4 below shows the regression result of the impact of financial development on poverty. The coefficient of credit to private sector, money supply and market capitalisation are all positive coefficients for both measures of poverty in model 1 and model 2 but only market capitalisation is significant, while none of the variables is significant in model 2

**Table 4: Impact of Financial Development on Poverty**

<i>Variable</i>	<b>Model 1</b>	<b>Model 2</b>
	<b>PCPC</b>	<b>HHFC</b>
<i>Constant</i>	719.5988 (4.019)	63.72715 (10.3502)
<i>Credit-Private Sector</i>	29.15554 (1.4609)	0.654890 (0.9542)
<i>Money Supply</i>	32.39913 (1.4633)	0.633600 (0.8321)
<i>Total Savings</i>	-54.52285 (-1.5451)	-1.826510 (-1.5052)
<i>Value Traded</i>	-13.42007 (-1.8807)***	-0.254321 (-1.0364)
<i>Market Capitalisation</i>	18.34026 (2.4463)**	0.344179 (1.3349)
<b>R-squared</b>	0.519103	0.148524
<b>Adjusted R-squared</b>	0.436189	0.001718
<b>F-statistic</b>	6.260783	1.011700
<b>Prob (F-statistic)</b>	0.000471*	0.428696

Note: t-values in parenthesis ( ); significant level \* 1%. \*\* 5%, \*\*\*10%

A clue from the poor performance of model 2 (HHFC) (Adj. R-square =0.0017; F.stat. = 1.0117 and p= 0.4287) is that financial development may not be linked to poverty alleviation in Nigeria through household final consumption expenditure but through private consumption per capita (PCPC) with a better fit of the model ( Adj. R-square =0.4362; F.stat. = 6.2608 and p= 0.0005). Thus result presentation is based on the private consumption per capita (PCPC) measure model of poverty alleviation.

Based on the private consumption per capital measure model, although banking sector development promotes poverty alleviation(reduction), through access to credit by the private sector and financial deepening, its strength is not strong



enough to create any substantial poverty reduction whereas, stock market development particularly increase in market size contributes more substantially to poverty reduction in Nigeria. This confirms to the findings of Law and Tan (2009) in Malaysia who found that development in banking sector is insignificantly related with income inequality and poverty reduction. Dundume (2004) affirms that banking sector development does not cause poverty reduction suggesting that increase in the supply of loanable funds due to financial sector development is not enough to ensure poverty reduction. A similar submission has been made by Dauda and Makinde, (2014) that the relationship between poverty alleviation and the financial deepening is negative and significant. Contrary to the general belief, and concluded that credits to private sector have failed to cause a reduction in the poverty incidence in Nigeria. Haan, Pleninger and Sturm (2021) recent study concluded that financial development does not have a direct effect on the poverty gap. However, as financial development leads to greater inequality, which, in turn, results in more poverty, financial development has an indirect effect on poverty through this transmission channel. These findings however are contrary to the findings of Azra, Dilawar, Ejaz and Waheed (2012) who concluded that financial deepening reduces poverty and that financial deepening has long-run relationship with per capita consumption (poverty alleviation). Further examination of the result shows that bank savings and value of stock traded have negative coefficients suggesting that bank savings and liquidity of the capital market can aggravate or increase poverty in Nigeria.

The overall result of model 1 with adjusted R-square of 0.4362 (F-stat. 6.6208; p=.0005) suggests that financial development has significant effect on poverty reduction through improvement in the value of Private Consumption per Capita of Nigerians. While it is noted from the submissions of previous studies, for instance Ndebbio (2004) posits that the poor and weak financial sector development in Nigeria has led to decline in growth which ultimately leads to high poverty rate, our study supports the findings of Khalil (2012) and that financial development has effect on poverty alleviation, and if the poor have access to financial services, they can increase their productive assets; improve productivity and therefore their income.

The banking sector approach may be weak in strengthening poverty alleviation in Nigeria but the capital market dimension may be more potent. It is rather surprising that the banking sector which appears to have a larger patronage and whose services are broader in scope and coverage geographically, sectorally and cuts across various economic status of Nigerians compared to the capital market has consistently performed poorly in poverty alleviation as confirmed by this study and many other previous studies. This may be a further confirmation that the increasing development being experienced in the banking sector has not impacted positively and significantly on the life of an average Nigerian through the enhancement of their wellbeing, livelihood and poverty alleviation generally.

Hence, this study concludes based on model 1 that financial development has significant effect on poverty reduction and that bank saving and stock market liquidity are important tools to curb poverty and that the private consumption per capita (PCPC) is a more appropriate way of relating poverty with financial development in Nigeria.

### **Conclusions**

This study examines the impact of financial development on poverty in Nigeria from 1981-2020 based on multiple regression analysis while using two measures of poverty- private consumption per capita (PCPC) and household final consumption expenditure (HHFC) as a percentage of GDP. These measures are in line with the definition of World Bank which defines poverty as "the inability to reach the subsistence level of life" measured in terms of basic consumption needs (World Bank, 1990).

The study found that financial development has significant impact on poverty alleviation in Nigeria but more importantly through the capital market channel and weakly through the banking sector. Hence, given experiences of developed economies and the roles played by the financial sector in improving economic growth and reducing poverty, this study recommends the following: there must be concerted efforts at improving savings accumulation, thereby strengthening financial deepening as saving accumulation will later improve access to credit and make some borrowers to shift from informal to formal credit market. The monetary authority should tackle financial repression by further liberalizing the financial sector and allowing real interest rates to rise to positive levels to attract savings.

It should develop policies that would stimulate banks to grant credit facilities to the poor and neglected key sectors of the economy especially those in the informal sector which constitutes the largest sector of the Nigerian economy. It is also pertinent to pursue the development of the Nigerian capital market to compliment the banking channel for poverty alleviation in Nigeria even though the capital market is still seen as an elitist market. The government should implement policies and programmes that promote access to financial sector services especially through cashless policy, micro financing, rural banking development among others in order bring majority of Nigerians to the financial services network and consequently create opportunities and frameworks for poverty alleviations through the financial services sector development.

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