Vol.8 Issue.1 April 2023

RSEP Review of Socio - Economic Perspectives
ISSN: 2149 - 9276
E-ISSN: 2547-9385

Dynamics of financial inclusion and capital formation in Nigeria

Eberechi Bernadine Ikwuagwu[1,•] & Kingsley Onyekachi Onyele[2,α]
[1] *Ph.D., Department of Banking and Finance, Michael Okpara University of Agriculture, Umudike, Abia State, Nigeria*
[2] *Ph.D., Department of Banking and Finance, Michael Okpara University of Agriculture, Umudike, Abia State, Nigeria*

Article History
Received: 6 January 2023 Revised: 27 March 2023 Accepted: 30 March 2023 Available Online: 1 April 2023

Keywords: Nigeria, financial inclusion, capital formation, VECM
JEL classification: E44, G20, I30

Citation: Ikwuagwu, E.B. & Onyele, K.O. (2023). Dynamics of financial inclusion and capital formation in Nigeria, *Review of Socio-Economic Perspectives,* 8(1), 59-76.

Abstract

This study tested econometrically derived hypotheses concerning the link between financial inclusion and capital production in Nigeria using annual data from 1992 to 2021. Cointegration analysis and the vector error correction model (VECM) were used to capture both long- and short-term relationships between variables. Johansen co-integration tests were used to perform cointegration, and VECM was required for the result. Ex-ante and ex-post forecasting utilizing variance decomposition and impulse response were utilized to assess the research duration. The VECM Granger causality approach was utilized in the study to examine short-run causality correlations between series using an F-/Wald test simulation. According to the VECM estimation, both loans from commercial banks to rural areas and credit from commercial banks to SMEs had a somewhat favorable impact on capital creation. On the other hand, capital formation in Nigeria was significantly and diminishingly impacted by both rural commercial bank deposits and the quantity of commercial bank branches. Further evidence that the system was dynamic came from the variance decomposition and impulse response, which revealed that the impact of financial inclusion on capital formation changed over time. According to the study's findings, the government should change the lending environment to accommodate the financing needs of smaller economic entities, such as rural communities, in order to ensure their financial inclusion.

1. Introduction

Due to its perceived significance as a driver of investments and economic growth, financial inclusion[1] has recently taken on a larger level of prominence. The United Nations Conference on Trade and Development (UNCTAD) asserts that granting access to the hundreds of millions of men and women (worldwide) who are currently denied access to financial services would open up opportunities for the establishment of a sizable depository of savings, investable funds, investment, and consequently the creation of global wealth (UNCTAD, 2020). In other words, having access to financial services that are suitable for those with modest incomes encourages massive capital accumulation, the production of credit, and an investment boom. Since they often make up the greatest section of the population, low-income earners are in charge of a sizable portion of the economy's idle funds, even though each of the several million members of this category only holds a small portion of the total. Utilizing and gathering these resources opens up a sizable source of inexpensive long-term investable cash. Therefore, financial inclusion is attained when people have simple access to a wide array of financial products that are created to meet their needs and are offered at reasonable prices. Among other things, these goods include pensions, insurance, savings, and payments. People's welfare has typically been seen as a by-product of growth rather than the main goal of economic policy.

• **E-mail:** ikwuagwu.eberechi@mouau.edu.ng & **ORCID:** https://orcid.org/0000-0002-7199-7851
α **E-mail:** onyele.kingsley@mouau.edu.ng & **ORCID:** https://orcid.org/0000-0002-4731-6139
DOI: https://doi.org/10.19275/RSEP149
Article Type: Original Paper

[1] The National Financial Inclusion Strategy was introduced by the Central Bank of Nigeria on October 23, 2012, in conjunction with stakeholders, in an effort to further reduce the exclusion rate to 20% by the year 2020.