International Journal of Economics, Commerce and Management
United Kingdom ISSN 2348 0386 Vol. 11, Issue 11, Nov 2023

https://ijecm.co.uk/

FINANCIAL GLOBALIZATION AND POVERTY RATE IN NIGERIA: THE ROLE OF FINANCIAL DEVELOPMENT

Dorothy I. Okoduwa
Department of Economics, Veritas University Abuja, Nigeria
dorothy.okoduwa@gmail.com

Michael Kwanashie
Department of Economics, Veritas University Abuja, Nigeria
mike.kwanashie@gmail.com

Chris A.C- Ogbonna
Department of Economics, Veritas University Abuja, Nigeria
acogbonna@gmail.com

Abstract

Theoretical and empirical literatures have argued on the role of financial development in promoting the influence of financial globalization on poverty reduction. However, this issued has been neglected among indigenous study. Therefore, this research study investigated the role of financial development in the relationship between financial globalization and poverty in Nigeria. The study spanned 1981 to 2022 and employed the autoregressive distributed lag (ARDL) techniques in estimating the data. The results of this study showed that financial development and financial globalization significant influenced poverty in Nigeria. Thus, the study concluded that financial development is important in the relationship between financial globalization and poverty in Nigeria. Therefore, the study recommended that the financial sector should be a vital conduit through which investment from financial globalization contributes to poverty reduction. This can be done through activities of the financial sector in rural development.

Keywords: Financial development, poverty, financial globalization, Nigeria, ARDL

INTRODUCTION

In the literature, scholars have noted that the globalization of the financial services and the inflow of foreign capital into the domestic economy, have contributed to the increase in the volume of credit to the private sector and development of the financial sector (Salah, Muhammad & Kishwar, 2015; Levine, 2001). This is argued to promote economic growth through increase in productivity. Enhanced productivity is expected to influence employment opportunities, reduce poverty and income inequality.

In spite of the agitations of financial globalization in Nigeria, poverty has continued to increase. For instance, while foreign capital inflows which is associated with financial globalization has experienced an upward trend over the past decades, poverty has unequivocally maintained a rising trend. According to the Central Bank of Nigeria Statistical bulletin foreign capital inflows which stood at ₦334.7m in 1981 rose ₦1159,52.2m and further to ₦810,786.2m in 2000 and 2021 respectively. Paradoxically, within the study period poverty has equally increased from 32 percent in 1981 to 80.9 percent and 70.5 percent 2000 and 2021 respectively. In line with the above association between financial globalization and poverty, some studies (Dollas & Kraay, 2001; Bhalla, 2002) have questioned the role of financial liberalization in reducing poverty in developing countries particularly in an environment of financial underdevelopment. For instances, some studies claimed that financial development through the services it provided, enhanced the influence of financial globalization on poverty (Sehrawat & Giri, 2016; Odhiambo, 2010). Thus, these studies emphasized that a well-developed financial sector facilitate capital inflows from the developed countries to the developing countries.

Consequently, such inflows are expected to promote the welfare of poor households through advancement of loans by the financial sector, job creations and improve earnings. In contrast to the foregoing, Alam and Alam (2021) noted that financial development has been insignificant in the link between financial globalization and poverty. Alam and Alam (2021) stressed that in spite of the rising trend of financial globalization and financial development in underdeveloped countries and particularly in Nigeria, the poverty rate has refused to nosedive but rather escalated to making Nigeria the poverty capital of the world (Uzoho, 2021).

More worrisome on the above issue is the absence of local studies on the role of financial development in the link between financial globalization and poverty in Nigeria. thus, the focus of this study is to examine the role of financial development in the relationship between financial globalization and poverty in Nigeria for the period spanning 1981 to 2022.

The rationale for the study period of 1981 to 2022 is due to the following. One, time series on poverty rate in Nigeria only exists for this period. Two, within the period 1981 to 2022, the Nigerian economy witnessed significant policy reforms such as the liberalization of the economy from a close economy to an open economy. This policy reform influenced the financial flows from the developed countries into the Nigerian economy and integrated the Nigerian financial sector into the global economy. Three, within the scope of 1981 to 2022, the financial sector witnessed significant reforms such as financial sector deregulation in 1986 and the recapitalization exercise in 2005 among others. These policy reforms are believed to have influence the level of poverty in Nigeria.

LITERATURE REVIEW

Different studies have been conducted on financial development, financial globalization and poverty using panel and country specific data. De-Haan, Pleninger and Sturm (2022) analyze the impact of financial development on poverty gap for a panel of 84 developing countries for the period 1975 to 2014. Using panel estimation technique, the findings of the study showed that financial development has an insignificant direct impact on poverty gap, while financial development promote greater income inequality, thereby escalating poverty in developing countries. More so, the results showed that financial development indirectly influenced poverty through the transmission channel of income inequality. The study further noted if poverty lines is measured by $3.20 a day or $5.50 a day (instead of $1.90 a day used in the baseline model), economic growth contributes to poverty reduction. This study failed to analyze the role of financial globalization in poverty reduction. More so, the study is a panel study and the recommendations from the study might be inappropriate for a country specific study like this due to different economic conditions prevailing in Nigeria.

In India, Alam and Alam (2021) explored the relationship among financial development, economic growth and poverty reduction. The study utilized the auto-regressive distributed lag and the error correction modeling methods. The findings of the study revealed that in the long run, financial development and economic growth were insignificant in contributing to poverty reduction in India while in the short run the estimate showed that financial development and economic growth contributed to poverty reduction. This study failed to analyze the role of financial globalization in poverty reduction. More so, study focused on India and the recommendations from the study might be inappropriate for a country specific study like Nigeria due to differences in economic condition between Indian and Nigeria, and differences in implementation strategies.

More so, in India Giri, Pandey and Mohapatra (2021) analyzed the impact of technological progress, trade globalization and financial globalization on income inequality. The study spanned 1982 to 2018, and utilized the auto-regressive distributed lag method (ARDL) and vector error correction modeling (VECM) causality methods. The ARDL estimates showed that technological progress had positive and significant impact on income inequality. More so, the results revealed that trade globalization contributed significantly to reduction in income inequality while financial globalization had insignificant impact on income inequality. The causality results showed unidirectional causality from technological progress, trade globalization and financial globalization to income inequality in India. This study failed to analyze the role of financial development in poverty reduction. More so, study focused on India and therefore, the recommendations from the study might be inappropriate for Nigeria due to differences in economic condition between Indian and Nigeria, and differences in implementation strategies.

Using data on 14 selected African countries for the period 1985 -2017, Korankye, Wen, Appiah and Antwi (2021) analyzed the linkage among financial development, economic growth and poverty alleviation. The study utilized the Panel Mean Group – Autoregressive Distributed Lag (PMG-ARDL) technique. The outcomes of the study revealed that financial development and poverty alleviation had significant impact on economic growth among the selected African countries. This study failed to analyze the role of financial globalization in poverty reduction. More so, study is a panel study and the recommendations from the study might be inappropriate for a country specific study like Nigeria due to differences in individual country's dynamics such as policy implementation patterns and policy strategies employed.

Zulher and Ratnasih (2021) analyzed the relationship between financial development and poverty reduction in developing countries. The study covered the period 1997 to 2018 and used the ordinary least squares (OLS) estimation technique. The outcomes of the study showed that financial development contributed significantly to poverty reduction among developing countries. This study failed to analyze the role of financial globalization in poverty reduction. More so, the study employed OLS which has shortcomings such as sensitivity to outliers, leverage points and influential observations which can disturb the estimate and reduce their accuracy, Thus, the recommendations from the study might be biased and reduce the relevance of the accuracy of its policy recommendations.

Focusing on MINT countries (Mexico, Indonesia, Nigeria and Turkey) for the period 1980 – 2018, Osinubi (2020) analyzed the role of income inequality in the relationship between globalization and poverty. The study utilized the Dynamic Generalized Method of Moments and globalization was measured by economic, political and social globalization. The results of the study showed that income inequality is significant in the link between poverty and political globalization in Indonesia and Mexico, while income inequality influences the link between social globalization and poverty in Turkey. More so, the study reported that income inequality was insignificant in the link between poverty and the three dimensions of globalization in

Nigeria. Finally, the results of the study showed that income inequality had positive and significant impact on poverty in Indonesia, Mexico and Nigeria with exceptions to Turkey. The study failed to consider the role financial development in the link between globalization and poverty. Thus, the findings failed to provide information on whether or not financial development is important in the link between financial globalization and poverty or otherwise.

Using data for the period 2004-2016 for a panel of 116 developing countries, Omar and Inaba (2020) analyzed the impact of financial inclusion on poverty reduction and income inequality. The results of the study showed that age dependency ratio, per capita income, inflation and ratio of internet users and income inequality are significant drivers of financial inclusion in developing countries. More so, the results showed that financial inclusion contributes significantly to poverty reduction and narrowing of the income inequality gap in developing countries. This study is a panel study and the recommendations from the study might be inappropriate for a country specific study like Nigeria due to differences in individual country's dynamics such as policy implementation patterns and policy strategies employed.

Fuinhas, Marques and Lopes (2019) analyze the effect of financial sector development and globalization on economic growth for the period 1980 – 2015. The study focused on 10 countries – USA, Switzerland, South Africa, Singapore, Mexico, Malaysia, Japan, Israel, China and Argentina. The utilized the auto-regressive distributed lag methods and financial market development was measured by banking sector development and stock market development. The results of the study showed that banking sector development significantly promoted economic growth in both the short run and the long run while stock market development only enhanced economic growth in the long run. More so, the study observed that political globalization significantly enhanced economic growth in the long run while financial globalization had positive and significant impact on economic growth in the short run. This study neglected the issues of poverty; therefore, recommendations from the study might be inappropriate in addressing the poverty issues in Nigeria. More so, study is a panel study and the recommendations from the study might be inappropriate for a country specific study like Nigeria due to differences in individual country's dynamics such as policy implementation patterns and policy strategies employed.

Using data spanning 1980 – 2017 for the Nigerian economy, Fagbemi and Olufolahan (2019) examined the relationship among capital inflows, financial development and poverty reduction. Specifically, the study analyzed the interactive effect of capital inflows and financial development on poverty reduction. The study utilized the vector error correction (VEC), granger causality and the auto-regressive distributed lag (ARDL) methods. The results of the study showed that capital inflow and financial development jointly contributed to significant reduction in poverty in Nigeria. This study failed to consider the role of financial development in the link between financial globalization and poverty. Hence, recommendations from the study might be inappropriate in explaining how financial development influenced the link between financial development and poverty.

Research Gap

The review of literature showed empirical lacuna on the role of financial development in the relationship between financial globalization and poverty rate. Study by Fuinhas et al. (2019) only focused on the link among financial development, globalization and economic growth while Osinubi (2020) focused on the role of income inequality in the link between globalization and poverty rate. None of the previous studies have analyzed the role of financial development in the relationship between financial globalization and poverty rate.

RESEARCH METHOD

To examine the role of financial development in the relationship between financial globalization and poverty rate in Nigeria, this study adopts the model of Olohunlana and Dauda (2019) which is specified as:

$$PV_t = f(FD_t, GDPP_t, INF_t) \quad 1$$

Where, PV is poverty, FD is financial development, GDPP is per capita GDP and INF is inflation rate.

Given the focus of this study, financial globalization (FG) is introduced into the model. Therefore, including the above variable, model (1) becomes:

$$PV_t = f(FD_t, GDPP_t, INF_t, FG_t) \quad 2$$

Where, PV = Poverty Rate; FD = Financial Development; GDPP = per capita Gross Domestic Product; INF = inflation Rate; FG = Financial Globalization

Expressing equation (2) in estimation form and including the constant term and the stochastic error term, equation (2) becomes.

$$PV_t = \delta_0 + \delta_1 FD_t + \delta_2 GDPP_t + \delta_3 INF_t + \delta_4 FG_t + \mu_t \quad 3$$

With respect to the measurement of variables, poverty rate (PV) is measured by the poverty incidence and obtained from the Nigerian Bureau of Statistics (NBS). Financial development is measured by banking sector development (FD). Data on financial development is collected from the Central Bank of Nigeria Statistical Bulletin, 2022 edition. Financial globalization (FG) is measured by foreign direct investment into Nigeria and Inflation rate (INF) is measured by the annual inflation rate. Data on financial globalization (FG), real gross domestic product (GDP) and inflation (INF) are obtained from Central Bank of Nigeria Statistical

Bulletin, 2020 edition. Data on population is obtained from the World Bank Development Indicator (WDI) Bulletin, 2022 edition.

While analysing the data for this study, first, the study conducted the stationarity test otherwise known as the unit root test. This to ensure appropriate estimation of the series and avoid spurious regression estimate. Secondly, the study employed the ARDL co-integration method because the stationarity showed that the variables are of order zero and one. Thus, the outcome of the co-integration suggested the presence of a long run relationship among the variables. Thirdly, this study adopted the auto-regressive distributed lagged estimation approach. This is to evaluate the extent to which the independent variables explained the dependent variable. Finally, the study conducted the diagnostic test to ascertain the appropriateness and robustness of the regression estimate.

ANALYSIS AND DISCUSSION

Stationarity and Co-integration Estimates

The results of the stationarity test are presented on Table 1 below. From results it is observed that financial development (FD), financial globalization (FG), gross domestic product per capita (GDPP) and poverty rate (POV) were I(1) series because the variables were integrated of order one. However, inflation rate (INF) was integrated of order zero because the variable was stationary at level. This showed that inflation rate is an I(0) series. Given the combination of I(0) and I(1) series based on the stationarity results, this study employs the Auto-regressive Bound co-integration method in estimating the co-integration test.

Table 1. Stationarity Estimate (E-views 9 output)

Philips-Perron (PP) Test			
Variables	**Level**	**Difference**	**Status**
FD	-0.9566	-6.9242*	I(1)
FG	-2.1390	-8.5837*	I(1)
GDPP	-0.4900	-3.7995*	I(1)
POV	-2.2156	-4.0141*	I(1)
INF	-3.2827**	-	I(0)

Notes: * and ** implies 1% and 5% significant levels.

The results from the co-integration showed that the value of the F-statistics was greater than the upper bound value at five percent critical value. Thus, the co-integration estimates showed the presence of long run relationship among the variables.

Table 2. ARDL Co-integration Estimate (E-views 9 output)

F-Statistics Values		
	4.0124	
Critical Value	I(0)/Lower Bound	I(1)/Upper Bound
10%	2.12	3.23
5%	2.45	3.61
1%	3.15	4.43

With respect to objective of this study which is to examine the role of financial development in the relationship between financial globalization and poverty reduction, the regression estimates of is conducted with the presence of financial development variables in the model and the result is presented on Table 3 below. From the results it was observed that the financial development (FD) and gross domestic product per capita (GDPP) had very important influence on poverty reduction. Thus, a unit increase in financial development and gross domestic product per capita is expected to reduce poverty by 0.53 and 139.48 units respectively in the short run. On the contrary financial globalization significantly contributed to the increase in poverty during the study period. Inflation rate was observed not to be important in influencing poverty in Nigeria. With respect to the objective of the study, it was discovered that financial development enhanced the impact of financial globalization of poverty reduction in Nigeria.

Table 3. Regression Results (E-views 9 output)

Independent Variables	Estimated Co-efficient	Standard Error	t-Statistics	Prob.
Dependent Variable: POV		Long Run Regression Estimate		
FD	-0.53503	0.14159	-3.77882	0.0007
GDPP	-139.4829	37.8211	-3.6880	0.0009
INF	-0.1532	0.1016	-1.5081	1.1417
LFG	5.1206	1.0640	4.8128	0.0000
C	38.0185	9.1522	4.1540	0.0002
$\mathbf{R^2}$ = 0.7962			**F-stat. (Prob.)** = 17.303 (p <0.05)	
Adjusted $\mathbf{R^2}$ = 0.7502			**Durbin-Watson** = 1.9598	

Notes: * and ** signify 1% and 5% significant level.

In addition to the above, the coefficient of determination or the R-square from the above estimates is significantly high, indicating that the explanatory variables explained more that 75% of the variation in the dependent variables in the estimated model. More so, the Durbin-Watson

(D-W) statistics is appropriate because the D-W value of the models were approximately 2. This suggests the absence of serial correlation and the findings of the study can be used for policy recommendation. The Durbin-Watson result is corroborated by the Breusch-Pagan-Gidfrey Heteroskedasticity and serial correlation LM estimates in Table 4. The values of the Breusch-Pagan-Gidfrey Heteroskedasticity and serial correlation LM estimates were insignificant in the estimated models suggesting the possibility of the absence of biasness in the estimates.

Table 4. Diagnostic Tests (E-views 9 output)

Estimates	F-Statistics	Obs*R-Squared	Prob. F(2, 24)	Prob. Chi-Square
Serial Correlation LM	0.3013	0.7939	0.7421	0.6724
	F-Statistics	Obs*R-squared	Prob. F(5, 33)	Prob. Chi-Square(5)
Breusch-Pagan-Godfrey Heteroskedasticity Test	0.7070	0.7955	0.2607	0.3870

CONCLUSION AND POLICY RECOMMENDATIONS

This research study investigated the role of financial development in the relationship between financial globalization and poverty in Nigeria. In the study, financial development was measured by banking sector development and the period covered by the study is 1981 to 2022. The study utilized the autoregressive distributed lag (ARDL) techniques in estimating the data and the results revealed that financial development is vital in the relationship between financial globalization and poverty in Nigeria. Therefore, the study recommended that the financial sector should be a vital conduit through which investment from financial globalization contributes to poverty reduction. This can be done through activities of the financial sector in rural development. More so, special loan and grant packages can be made available by financial institution for the poor investors with viable business plans that can made optimum utilization of the investible funds obtained through financial globalization. This will contribute to poverty reduction in Nigeria.

SCOPE FOR FURTHER STUDIES

This study evaluated the role of financial development in the relationship between financial globalization and poverty covering the scope of 1981 to 2022. From the analyses, noteworthy findings were revealed. However, future studies should consider this topic at a regional level such as focusing ECOWAS or sub-Saharan Africa. The findings of such regional study would aid policymakers and African leaders in addressing the issue of rising poverty rate using appropriate financial globalization and financial development regional reforms. In addition, future studies should consider examining the relationship among financial globalization, financial development and income inequality in Nigeria. The findings would also help in addressing the issue of rising poverty at country specific and regional region.

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