Does Domestic Finance Reduce Poverty in Nigeria?

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Abstract: **This paper investigates the contribution of domestic finance in reducing poverty in Nigeria from 1990 to 2021. To achieve the objectives of the study, domestic finance was broken down into: Deposit money bank lending to the private sector, public sector, microfinance bank lending to the economy, government capital expenditures, and interest rate on lending while the poverty rate was proxied by Poverty. The research design employed in this study was *an ex-post facto* research design. The study employed the ARDL method of data analysis due to mixed order of stationarity of the variables. The finding shows that Deposit money banks' lending to the private sector, exhibited negative effect on poverty but such impact was significant. At the same time microfinance bank lending to the economy indicated negative effect with poverty rate in Nigeria. Also, government capital expenditure reported positive with poverty rate in Nigeria. In addition, interest rate on lending and deposit money bank lending to the private sector that exhibited positive effect with poverty rate in Nigeria. However, in the short run, only government capital expenditure had positive effect on poverty rate. Based on these findings, the study concludes as follows: Deposit Money Bank has insignificant effect on poverty rate in the long run. Government capital expenditure had insignificant positive impact on poverty rate in the short run. That a long run relationship exists between domestic finance and poverty rate in Nigeria. Based on these findings, the study recommends: Increase Deposit money banks' lending to the private sector to reduce poverty in Nigeria, Increase Microfinance bank lending to the economy and Reducing interest rate all these will help to grow the economy.**

Keywords: **Domestic Finance, Poverty, Poverty alleviation.**

1. INTRODUCTION

The focus of governments in various nations is to alleviate poverty among the broader populace. The issue of poverty reduction has garnered heightened international focus, with the associated problems becoming increasingly formidable. Numerous scholarly investigations and practical observations have substantiated the notion that substantial alleviation of poverty is both feasible and has indeed occurred in many developing nations (Chiwira, Bakwena, Mupimpila & Tlhalefang, 2020). Economic growth serves as a primary mechanism for poverty reduction and the upliftment of individuals living in poverty by means of productive work. The assertion is substantiated by research studies that have demonstrated a decline in the overall population of individuals living in impoverished conditions within developing nations that have undergone consistent and substantial economic advancement throughout recent decades (Odhiambo, 2014; Orji, Aguegboh & Anthony-Orji, 2015; Chiwira, Bakwena, Mupimpila & Tlhalefang, 2020). This implies that a rise in economic growth possesses the potential to mitigate the prevalence of poverty within a nation. While this may be true of the developed countries, this paper is not sure of the case in developing countries. This paper therefore investigates the contribution of domestic finance in reducing poverty in Nigeria from 1990 to 2021.

The rest of the paper is organized as follows: First we reviewed some previous works that are related to the problem we are investigating, including the theory of financial intermediation and how it influences the performance of banks and the poverty rate. Next the methodology of the study was exposed alongside our model specification. The facts are exposed in the next section and findings discussed. This was followed by conclusion and recommendations.

2. LITERATURE REVIEWED

Financial Intermediation Theory

The theory of financial intermediation was developed from the 1960s to the twentieth century, the starting point being the work of Gurley and Shaw (1960). The theory, which largely builds on the economics of imperfect information, was further developed in the 1970s through the contributions of Akerlof (1970), Spence (1973), and Rothschild and Stiglitz (1976). The modern theory of financial intermediation analyzes, mainly, the functions of financial intermediation, how financial intermediation influences the performance of banks and the economy, and the effects of government policies on the financial intermediaries. It highlights the role of financial intermediaries in the economy, and the impact of regulations on financial intermediation, accentuating the role of the central bank in the regulation, supervision, and control of financial intermediaries (Andrieş, 2009). The theory argues that financial intermediaries exist because they can reduce information and transaction costs that arise from an information asymmetry between borrowers and lenders. Financial intermediaries thus assist the efficient functioning of markets, and any factors that affect the amount of credit channeled through financial intermediaries can have significant macroeconomic effects. Claus and Grimes (2003) clarified that two strands in the literature formally explain the existence of financial intermediaries. The first strand emphasizes financial intermediaries' provision of liquidity. The second strand focuses on financial intermediaries' ability to transform the risk characteristics of assets. In both cases, financial intermediation can reduce the cost of channeling funds between borrowers and lenders, leading to a more efficient allocation of resources. Andrieş (2009) identified three key approaches to financial intermediation. The studies regarding the informational asymmetry approach especially the problematic relationships between banks and creditors, banks, and debtors. In the relationship between banks and borrowers, the main aspect analyzed is the function of the selected bank and the tracking of the granted loans, as well as the problematic of adverse selection and moral hazard. In the relationship between banks and depositors (creditors), special attention is given to the factors that determine depositors' eagerness to withdraw their money before the due date. The second approach to financial intermediation is founded on the argument of transaction cost. Unlike the first approach, this one does not contradict the theory of perfect markets. This approach is based on the differences between the technologies used by the participants.

Thus, intermediaries are perceived as being a coalition of individual creditors or debtors who exploit the scale economy at the level of transaction technologies. The notion of transaction cost does not comprise just the costs regarding the transfer costs for the amounts or of foreign exchange, but also those for research, evaluation, and monitoring thus the role of financial intermediaries is to transform the characteristics (due date, liquidity, etc.) of assets, the so-called qualitative transformation of financial assets, offering liquidity and opportunities for diversification of placements. The third approach of financial intermediaries is based on the method of regulation of the monetary creation, saving, and financing of the economy (Andrieş, 2009).

The study conducted by Onita, Okereke, and Ogunbiyi (2022) investigated the relationship between institutional finance and the poverty rate in Nigeria throughout the period of 1991 to 2021. The study incorporates institutional credits from several sources, such as the Bank of Industry, Bank of Agriculture, Microfinance Bank, African Development Bank, World Bank, and Deposit Money Bank. The poverty rate was assessed using the Poverty Index as a metric. This research encompasses the examination of many statistical methods, including the Unit Root Test, Johansen Co-Integration Test, Vector Error Correction Model, and Granger Causality Test. The analysis revealed that both Microfinance Bank credit and African Development Bank credit made substantial contributions to the government's poverty alleviation programme in Nigeria over an extended period. Therefore, the researchers have reached the conclusion that the provision of institutional credits by Microfinance Bank and African Development Bank has made a substantial contribution to the efforts aimed at reducing the poverty rate in Nigeria. The study suggests that it would be beneficial for the Microfinance Bank to continue its current credit disbursement pattern. This recommendation is based on the findings of the report, which indicate that the provision of credit by the bank has contributed to the alleviation of poverty in Nigeria. The implementation of this measure is crucial as it would facilitate the integration of financially marginalised individuals into the financial ecosystem, hence enhancing their accessibility to a wider range of financial services and products.

In their research, Bello and Can (2022) conducted a study to examine the impact of the Bank of Industry's financing for Micro, Small, and Medium Enterprises (MSMEs) on poverty alleviation in the North-Central region of Nigeria. The utilisation of the descriptive survey method was advocated, and a total of 130 participants were given questionnaires for

data collection. The research utilised the independent t-test and one-way ANOVA statistical tests with a significance level of 0.05. The research findings indicate that the provision of funding to Micro, Small, and Medium Enterprises (MSMEs) by the Bank of Industry has a substantial impact on poverty alleviation within the region. Hence, it is recommended that the Federal, state, and local governments adopt a strategic approach in allocating additional capital funding through the Bank of Industry to foster the expansion of the micro, small, and medium enterprises (MSMEs) sector, with the aim of mitigating poverty levels, particularly in the north-central region of Nigeria.

In their study, Loyce, and Willy (2021) conducted an examination of the impact of government intervention via financial institution loans on the reduction of poverty levels in Kenya from 1964 to 2017. The study examines a range of government intervention strategies, such as providing Commercial Bank loans to Small and Medium Scale Enterprises (SMEs), offering Development Bank loans to manufacturers, securing World Bank loans, and facilitating Bank of Agricultural loans. The dependent variable in this study is the Poverty Index in the country. The study utilised the Unit Root test, Co-integration test, and Vector Error Correction model. The results of the analysis indicated that the data achieved stationarity by a first-order integration, and it was seen that there was one co-integrating equation present. The findings of the Error Correction model indicate that the Bank of Agricultural loans and loans to the health sector in Kenya have made a substantial and significant impact on the economy by effectively reducing the poverty trend over time. However, it is worth noting that the loan provided by Commercial Banks for Education does not appear to have had a significant effect on reducing the poverty trend in Kenya, as evidenced by the results obtained from the error correction model.

In their study, Dauda and Makinde (2021) investigated the impact of financial system growth on poverty alleviation in Nigeria from 2000 to 2018. The used variables were subjected to a series of statistical tests, including the Unit Root test, Co-integration test, and Vector Auto Regression model. These tests were conducted to account for the presence of a lag in the co-integrating equation among the employed variables. The investigation delved deeper into the utilisation of structural analysis techniques. The results of the study revealed that, contrary to expectations, there exists a noteworthy and statistically significant association between credit allocation to the private sector and the poverty rate in Nigeria. This finding implies that the provision of credit to the private sector does not result in a reduction in poverty in Nigeria. The study suggests that the direct correlation observed can be linked to the diligent approach of intermediaries in the Nigerian banking sector, as well as their inability to effectively allocate funds towards the socioeconomically disadvantaged individuals in the country.

In their study, Ifionu, Monogbe, and Boufini (2019) examined the impact of government initiatives on poverty reduction in Nigeria, specifically focusing on job creation and government capital investment as drivers of economic development. The study analysed data from the years 1981 to 2017. The research utilised statistical techniques such as the Unit Root Test, Error Correction Model, and Granger Causality test. The results indicated that all the independent variables examined displayed a negative coefficient in relation to economic progress in Nigeria, apart from the poverty rate. The poverty rate demonstrated a statistically significant P-value of 0.0023, indicating a positive coefficient of 0.002829. This implies that the level of economic development is insufficiently robust to generate sufficient employment opportunities, hence limiting its potential to effectively alleviate poverty in Nigeria. The employment rate in Nigeria demonstrates a statistically significant P-value of 0.0055, accompanied with a negative coefficient of -0.07783. This finding suggests the presence of a substantial and negative association between the employment rate and economic development in Nigeria. This implies that for the employment rate to positively respond to economic development, the development must be intense. This is because the unemployment rate is observed to be a lagging indicator, meaning it responds to economic development at a slower pace. The statistical analysis reveals that government capital expenditure in Nigeria has a very significant P-value of 0.0000. Moreover, the corresponding coefficient value of -0.00002 indicates a negative association between government capital expenditure and economic development in the country. Considering this observation, the adaptability of poverty alleviation strategies to economic progress exhibits dynamic and asymmetrical characteristics. This necessitates the normalisation and examination of the asymptotic distribution of government policy since it exerts a significant impact on the economy and consequently influences the trajectory of macroeconomic variables and the nation's investment capacity.

In their empirical study, Wang, Haroon, Ali, and Ullah (2019) examined the correlation between financial institutions, structure, the misery index, and economic growth in the context of Pakistan. The research employed the Autoregressive-Distributed Lag (ARDL) method as a means of conducting co-integration analysis on the dataset. The study utilised time series data spanning the years 1989 to 2017. In this study, the dependent variable was the Gross Domestic Product (GDP),

while the explanatory factors included the Financial Development index (FDI) and the misery index. Additionally, the study incorporated control variables such as remittances, real interest, and trade openness. The empirical findings suggest that there is a significant long-term association between the variables included in the model and the FD index, misery index, interest rate, trade openness, and remittances, which are identified as the primary factors influencing GDP in the long run. In order to attain a favourable level of economic growth in Pakistan, it is imperative for the government to implement suitable reforms in both the financial sector and external sector. The construction of the misery index is predicated upon the inclusion of unemployment and inflation metrics, both of which bear adverse implications for economic growth. Consequently, it becomes imperative for the government to formulate and implement policies aimed at mitigating the levels of unemployment and inflation.

In their study, Ogunbiyi and Monogbe (2019) examined the impact of sectoral loans on the economic development of Nigeria from 1981 to 2017. They utilised time series data obtained from the monthly bulletin of the apex bank. This study examines the impact of sectoral loans on economic development in Nigeria, specifically focusing on the production, commerce, services, and other sectors. The findings of the Cointegration test indicate the presence of three co-integrating equations. Furthermore, the analysis of the multiple regression model reveals a substantial association between government expenditure on commercial services and economic development during the investigated time periods. This study has determined that the provision of loans and advances specifically targeted towards the chosen area of the economy, namely the production and general sector, has had a notable impact on stimulating economic growth. Conversely, the allocation of loans and advances to other sectors has been found to have a less significant effect on promoting economic growth.

According to Okogba (2018), the exacerbation of poverty in Nigeria can be attributed to two primary factors. Firstly, the nation's population is increasing at a rate that surpasses the available resources. Secondly, the allocation of funds towards the expansion of public amenities is inadequate, thereby failing to effectively address the poverty levels within the country. Consequently, there has been a notable escalation in the levels of hunger, unemployment, power supply deficiencies, insecurity, and banditry.

3.   METHODOLOGY

Research design adopted to achieve the objective of this study was *ex-post-facto*. The study seeks to investigate the causal relationship between domestic finance and poverty rate in Nigeria, because it is non - experimental. Secondary data was used to explain the effect of domestic finance relationship on poverty rate in Nigeria. The data for this study is sourced from Central Bank of Nigeria (CBN) statistical bulletin. Autoregressive distributed lag (ARDL) was employed in analyzing the data. Unit root Augmented Dickey–Fuller Procedure (ADF) was employed in other to avoid a false result. The study adopted Augmented Dickey–Fuller Procedure to test the stationarity of the variables.

Model Specification

This section develops and specifies the model to be adopted to empirically determine the effect of domestic finance on poverty in Nigeria. Theoretically, the analytical framework of this study is anchored on the Supply leading finance model which recognized the critical role of financial services availability in the growth process. In addition, to achieve the objectives of this study and to help enhance the efficiency of the economic estimates, a multiple regression model was adopted in this study while the model adopted the work of Radzevica, Bulderberga, and Kransnopjorovs (2018) with slight modifications to integrate all the variables of this study in line with the broad aim and specific objectives of this study. The original model of Radzevica, Bulderberga, and Kransnopjorovs (2018) in their study on the empirical effect of the functional relationship point to the path of relationship between the selected institutional credits and poverty rate in Nigeria is obtained as follows:

$$POVIt = \alpha_0 + \alpha_1 DMC_t + \alpha_2 BAC_t + \alpha_3 BIC_t + \alpha_4 MFC_t + \alpha_5 ADC_t + \alpha_6 WBC_t + \mu_t \qquad (3.1)$$

Where;

POVI = Poverty Index

MFC = Microfinance Bank credit

ADC = African Development Bank credit

WBC = World Bank Credit

DMC = Deposit Money Bank Credit

BAC = Bank of Agriculture Credit

BIC = Bank of Industry Credit

α_0 = Constant variable/Intercept for both models

α_1- α_6 = Slope/Coefficient for Model 1

μ_t = Error Terms/Stochastic variables for both models

$_t$ = time series

This model is modified below:

Functional Model

The functional form of the model is specified as follows:

$$POV_t = f(DMBLP_t, DMBLG_t, MCRF_t, GCE_t, INR_t) \qquad (3.2)$$

Mathematical Model:
Equation (3.2) is transformed into a mathematical model as follows:
$$POV_t = \beta_0 + \beta_1 DMBLP_t + \beta_2 DMBLG_t + \beta_3 MCRF_t + \beta_4 GCE_t + \beta_5 INR_t \qquad (3.3)$$

Econometric Model:
Equation (3.3) is transformed into an econometric model as follows:

$$POV_t = \beta_0 + \beta_1 DMBLP_t + \beta_2 DMBLG_t + \beta_3 MCRF_t + \beta_4 GCE_t + \beta_5 INR_t + \mu_t \qquad (3.4)$$

Where:

POV = Poverty Rate

DMBLP = Deposit Money Bank lending to private sector

DMBLG = Deposit Money Bank lending to public sector

MRCF = Microfinance Bank lending to private sector

GCE = Government Capital Expenditure

INR = Bank Interest Rate

β_0= Regression Intercept

β_1 = Parameter or coefficient of Deposit Money Bank lending to private sector

β_2 = Parameter or coefficient of Deposit Money Bank lending to public sector

β_3 = Parameter or coefficient of Microfinance Bank lending to private sector

β_4 = Parameter or coefficient of Government Capital Expenditure

β_5 = Parameter or coefficient of Bank Interest Rate on lending

$_t$ = time subscript

μ_t = disturbance term which is a random (stochastic) variable that has well defined probabilistic properties.

The *a priori expectation* is to be based on whether the parameter conforms to economic postulations (theory) or not. The a priori results relates to the expectation or relationship between variables in the model. The expected nature of relationship among all the variables involved in this study (a priori expectation) is summarized in table 3.1 below:

Table 1: A Priori Expectation

Equation of the Hypothesized Relationship	Abbreviation	Parameters	Expected Sign	Conclusion
POV= $\beta_0 + \beta_1 DMBLP + \mu_t$	DMBLP	β_1	Positive (+)	$\beta_1 > 0$
POV = $\beta_0 + \beta_2 DMBLG + \mu_t$	DMBLG	β_2	Positive (+)	$\beta_2 > 0$
POV = $\beta_0 + \beta_3 MCRF + \mu_t$	MCRF	β_3	Positive (+)	$\beta_3 > 0$
POV = $\beta_0 + \beta_{4\,GCE} + \mu_t$	GCE	β_4	Positive (+)	$\beta_4 > 0$
POV = $\beta_0 + \beta_{5INR} + \mu_t$	INR	β_5	Negative (-)	$\beta_5 < 0$

Source: Researcher Idea in Line with Economic Theory.

Table 2: Correlation Test Result

Correlation Analysis: Ordinary
Date: 08/16/23 Time: 15:31
Sample: 1990 2021
Included observations: 32

Correlation	LNPOV	LNMFBLE	LNINR	LNGCE	LNDMBLP	LNDMBLG
LNPOV	1					
LNMFBLE	-0.048157	1				
LNINR	-0.007351	0.088634	1			
LNGCE	-0.032332	2.999248	0.003952	1		
LNDMBLP	-0.024657	5.592826	0.048312	2.478933	1	
LNDMBLG	-0.03836	6.14746	0.013634	2.870957	5.084458	1

Source: Computed Result

According to the correlation test results in table 2, there is a very weak and negative association between the poverty rate and all the independent variables. The degree of association among the regressors is often positive. It should be observed that the correlation finding provided less of a risk to the interaction of the regressors in the poverty rate model, allowing them to co-exist in the same model.

Table 3: Unit Root Test Result at Level – ADF Procedure

Variable	ADF statistic	1%	5%	Inference
LN(POV)	-3.18	-3.66	-2.96	Stationary i(0)
Ln(INR)	-3.22	-3.66	-2.96	Stationary i(0)
Ln(DMBLP)	-2.50	-3.66	-2.96	Not stationary
Ln(DMBLG)	-1.82	-3.66	-2.96	Not stationary
Ln(MFBLE)	0.41	-3.66	-2.96	Not Stationary
Ln (GCE)	-2.34	-3.66	-2.96	Not Stationary

Source: Researcher's computation

The unit root test result in table 3 shows that the poverty and inflation rates have no unit root at level. This means they achieved stationarity without differencing or at order zero i(0). DMB lending to the private and public sectors, microfinance bank lending to the economy, and government capital expenditure, on the other hand, had a unit root at the level. This means they weren't stationary at level.

Table 4: Unit Root Test Result at First difference – ADF Procedure

Variable	ADF statistic	1%	5%	Inference
Ln(DMBLP)	-4.05	-3.67	-2.96	Stationary i(1)
Ln(DMBLG)	-4.71	-3.67	-2.96	Stationary i(1)
Ln(MFBLE)	-9.33	-3.67	-2.96	Stationary i(1)
Ln(GCE)	-6.51	-3.67	-2.96	Stationary i(1)

Source: Researcher's computation

The unit root test result using the Augmented Dickey Fuller procedure at first difference demonstrates that DMB lending to the private sector, DMB lending to the public sector, Microfinance lending to the economy, and government capital spending had no unit roots at first difference. This means that these variables became stationary at i(1), and the null hypothesis of unit root presence were rejected at 1% and 5%, respectively.

The findings of the unit roots show that the variables under examination have a different order of stationarity. For example, the real GDP growth rate and the interest rate were stationary at the level, whilst deposit money bank lending to the private and public sectors, microfinance lending to the economy, and government capital spending were stationary at the first difference. The variable's varied order of stationarity necessitates the use of the autoregressive and distributed lag (ARDL) approach to estimate the association between domestic funding and economic growth in Nigeria.

Table 5: ARDL Bound Test Result

ARDL Long Run Form and Bounds Test
Dependent Variable: D(LNPOV)
Selected Model: ARDL(1, 0, 0, 1, 0, 0)

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
			Asymptotic: n=1000	
F-statistic	3.839702	10%	2.26	3.35
K	5	5%	2.62	3.79
		2.5%	2.96	4.18
		1%	3.41	4.68
Actual Sample Size	31		Finite Sample: n=35	
		10%	2.508	3.763
		5%	3.037	4.443
		1%	4.257	6.04
			Finite Sample: n=30	
		10%	2.578	3.858
		5%	3.125	4.608
		1%	4.537	6.37
t-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
t-statistic	-4.535776	10%	-2.57	-3.86
		5%	-2.86	-4.19
		2.5%	-3.13	-4.46
		1%	-3.43	-4.79

Source: Computed Result

The ARDL bound test result shown in table 5 demonstrates that the bound test result with F-statistic and t-statistic values of 3.839702 and -4.535776 are greater than their lower limit and upper bound critical levels of 5% and 10%, respectively. The null hypothesis of no levels association is thus rejected. As a result, the ARDL bound test demonstrates that the dependent variable and the regressors in the economic growth model have a long run relationship. The confirmation of the long run connection is required before carrying out the ARDL error correction model shown in table 4.7.

Table 6: ARDL Long run Result for Domestic Financing and Poverty Rate

ARDL Long Run Form and Bounds Test
Dependent Variable: D(LNPOV)
Selected Model: ARDL(1, 0, 0, 1, 0, 0)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNMFBLE	-0.029032	0.031400	-0.924593	0.3648
LNINR	0.085814	0.198679	0.431921	0.6698
LNGCE	0.281133	0.105813	2.656877	0.0141
LNDMBLP	-0.194944	0.071084	-2.742444	0.0116
LNDMBLG	0.057576	0.065303	0.881674	0.3871

Source: Computed Result

According to the long ARDL result in table 6, deposit money bank lending to the private sector is negatively connected to poverty rate and significant at 5% level. This means that increasing DMB lending to the private sector lowers poverty rates while decreasing DMB lending to the private sector raises poverty rates. This outcome is consistent with economic theory. This is because the money channelled to the private sector by DMBs in the form of loans and advances is adequately utilised because these DMBs regularly monitor these loans and advances, resulting in a drop in Nigeria's poverty rate.

Long-term lending by deposit money banks to the public sector has a positive but insignificant link with the poverty rate. This means that increasing DMB lending to the public sector raises poverty rates and vice versa. This outcome contradicts a priori theoretical expectations. This is due to the public sector's incapacity to appropriately channel monies obtained in the form of loans and advances from DMBs into investment projects aimed at reducing Nigeria's poverty rate. Another major cause is the ongoing plunder and embezzlement of public monies by government officials as a result of the improper execution of necessary checks and balances to limit their excesses.

In the long run, the lending of microfinance banks to the economy has a negative and insignificant association with the poverty rate. This means that increasing microfinance bank lending to the economy lowers poverty rates and vice versa. This outcome is consistent with a priori theoretical expectations, although it is inconsequential. This is due to the high interest rates associated with microfinance financing to small enterprises. Furthermore, the low amount of investment capital by microfinance banks and Nigeria's underdeveloped state may have contributed to this conclusion.

Government capital expenditure deviates from a priori theoretical expectations in the long run, with a substantial positive coefficient. This means that a rise in public sector spending boosted the poverty rate over the study period. This is due to the deplorable state of basic infrastructure such as roads, electricity, schools, and health care despite the large amount of funds budgeted for it each year, which deteriorates human capital development and provides a disabling environment for investment and job creation, thereby increasing poverty rates.

Contrary to popular belief, the interest rate on loans has a positive but insignificant relationship with the poverty rate. This implies that high interest rates exacerbated poverty, but this is insignificant. Increased interest rates raise the cost of capital and production, stifling investment and economic growth. However, most investments are motivated by the return on investment. As a result, if the return on investment is greater than the cost of capital, investors may be willing to invest more since they are confident of receiving the benefits of their investment. This reason could have explained how this variable behaved in this model.

Table 7: ARDL Error Correction Regression Result - Domestic Financing and Poverty Rate

Variable	Coefficient	t-Statistic	Prob.
C	3.106844	0.585370	0.0000
D(LNGCE)	0.037108	0.080831	0.6505
CointEq(-1)*	-0.930691	0.175738	0.0000
$R^2 = 0.7025$; $R^2_{-adjusted} = 0.6670$; DW-statistic = 2.193			

Source: Computed Result

According to the short term ARDL error correction model, government capital expenditure differs from a priori theoretical expectations with a positive coefficient that is insignificant. This means that a rise in public sector spending boosted the poverty rate over the study period. This is due to the deplorable state of basic infrastructure such as roads, electricity, schools, and health care despite the large amount of funds budgeted for it each year, which deteriorates human capital development and provides a disabling environment for investment and job creation, thereby increasing poverty rates.

The negative coefficient of the error correction term and its significance imply that the independent variables respond quickly to long-run changes in the poverty rate over the research period. Furthermore, the corrected R-squared of 0.667 indicates that changes in domestic sources of funding in Nigeria over the research period explain approximately 66.7 percent of the total variance in poverty rate. Given that it is about 2, the Durbin-Watson of 2.193 indicates that this model is free of first order serial correlation.

Table 8: Post Estimation Test Result

Test	F-Statistic	Probability	Inference
Jargue-Bera test for Normality	5.642	0.0595	Accept H0: Error term is normally distributed
Breusch-Godfrey Serial Correlation LM Test:	2.307	0.1242	Accept H0: No serial correlation at up to 1 lag
Heteroskedasticity Test: Breusch-Pagan-Godfrey	2.047	0.0921	Accept H0: Homoskedasticity
Ramsey RESET Test	0.370	0.5494	Accept H0: No Missing Variable

Source: Computed Result

The post estimation test conducted on the residual, as presented in table 8, indicates that the error term follows a normal distribution centred around the mean. This conclusion is supported by accepting the null hypothesis, as evidenced by the Jarque-Bera statistic of 5.642 and the associated probability value of 0.0595. The absence of autocorrelation is supported by the outcome, as indicated by the serial correlation LM test value of 2.307 and a probability value of 0.1242. This leads to the acceptance of the null hypothesis, as proposed by Ljung and Box (1978). In addition, the test conducted to assess heteroscedasticity in the model indicates its absence, as we accept the null hypothesis of homoscedasticity (Engle, 1982; & Jarque and Bera, 1980), supported by an F-statistic of 2.047 and a probability value of 0.0921. The Ramsey RESET test was conducted to assess the presence of omitted variables in the model. The results of the test indicate that the null hypothesis, which suggests the absence of missing variables, is accepted. This conclusion is supported by an F-statistic of 0.370 and a probability value of 0.5494. The model's adherence to the fundamental assumptions of ordinary least squares estimation confirms its suitability for prediction and forecasting, thereby establishing it as the best linear estimator, often known as the Best Linear Unbiased Estimator (BLUE).

4. DISCUSSION OF FINDINGS

The lending of deposit money banks to the private sector is significantly and negatively related to the poverty rate. This means that increasing DMB lending to the private sector lowers poverty rates while decreasing DMB lending to the private sector raises poverty rates. This outcome is consistent with economic theory. This is because the money channelled to the private sector by DMBs in the form of loans and advances is adequately utilised because these DMBs regularly monitor these loans and advances, resulting in a drop in Nigeria's poverty rate. This contradicts previous research by Olurumade, Samuel, and Adewale (2020), Joseph (2020), Amos (2020), Idachuba, Olukotun, and Elam (2019), and Shuaib and Kabiru (2019).

Long-term lending by deposit money banks to the public sector has a favourable but insignificant link with the poverty rate. This means that increasing DMB lending to the public sector raises poverty rates and vice versa. This outcome contradicts a priori theoretical expectations. This is due to the public sector's incapacity to appropriately channel monies obtained in the form of loans and advances from DMBs into investment projects aimed at reducing Nigeria's poverty rate. Another major cause is the ongoing plunder and embezzlement of public monies by government officials because of the improper execution of necessary checks and balances to limit their excesses. This discovery contradicts previous findings by Okafor, Onwumere, and Chijindu (2016) and Idachuba, Olukotun, and Elam (2019).

In the long run, the lending of microfinance banks to the economy has a negative and small association with the poverty rate. This means that increasing microfinance bank lending to the economy lowers poverty rates and vice versa. This outcome is consistent with a priori theoretical expectations, although it is inconsequential. This is due to the high interest rates associated with microfinance financing to small enterprises. Furthermore, the low amount of investment capital by microfinance banks and Nigeria's underdeveloped state may have contributed to this conclusion.

Government capital expenditure deviates from a priori theoretical expectations in the long run, with a substantial positive coefficient. This means that a rise in public sector spending boosted the poverty rate over the study period. This is due to the deplorable state of basic infrastructure such as roads, electricity, schools, and health care despite the large amount of funds budgeted for it each year, which deteriorates human capital development and provides a disabling environment for investment and job creation, thereby increasing poverty rates.

Contrary to popular belief, the interest rate on loans has a positive but insignificant relationship with the poverty rate. This implies that high interest rates exacerbated poverty, but this is insignificant. Increased interest rates raise the cost of capital and production, stifling investment and economic growth. However, most investments are motivated by the return on investment. As a result, if the return on investment is greater than the cost of capital, investors may be willing to invest more since they are confident of receiving the benefits of their investment. This reason could have explained how this variable behaved in this model.

5. CONCLUSION

There is no doubt that domestic finance has driven poverty reduction in Nigeria. This, however, depends on how the funds are utilized and the commitment of the government and the people. For this we make the following recommendations.

6. RECOMMENDATIONS

i. Increase Deposit money banks' lending to the private sector to reduce poverty in Nigeria: This could be achieved by assigning a good proportion of funds mobilized for lending to the private sector. The private sector is the pivot around which the growth of the economy revolves, and which determines the extent we can provide employment to people as well as alleviate poverty. Most private businesses especially, the Small and Medium Enterprises(SMEs)cannot perform due to paucity of funds.

ii. Increase Microfinance bank lending to the economy: Increasing microfinance bank lending to the economy, stimulates economic growth and reduce joblessness and poverty.

iii. Reducing interest rate: this will help to attract investors to make investment and grow the economy.

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