FINANCIAL SECTOR DEVELOPMENT AND POVERTY REDUCTION NEXUS: EVIDENCES FROM NIGERIA

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ABSTRACT*: Previous studies have examined the effect of financial sector development on poverty reduction. This study is unique by adopting the UNDP broader measure of well-being, the Human Development Index (HDI) to provide an argument for financial sector development process and poverty reduction interrelationship in Nigeria for the period 1988-2017. Stationary properties of the series were tested by the ADF unit root test. The paper uses the Johansen Co-integration test to examine the existence of long run relationship among the variables. Generally, it was found that financial sector development has both positive and significant relationship with HDI used as proxy for poverty level. The result also indicates a significant positive relationship between aggregate credit (AGC) and HDI. This shows that financial sector development which manifests in the ability of the banking sector to facilitate borrowing and investment in income earning assets, and stimulate the private sector, in particular, small and medium scale enterprises (SMEs), impacts positively on HDI. Finding also shows that aggregate deposit (AGD) (deposit opportunities available to deposit money banks) is negatively related to HDI and significant. This perhaps suggests that the volume of deposit mobilization by deposit money banks in Nigeria is relatively low to what is needed to transform the economy as well as the standard of living of the people. Realising that Human development is a desideratum and sacrosanct in poverty reduction, the objectives of policies aimed at further strengthening the banking sector should be people focused.*

KEYWORDS*: financial sector development, deposit money banks, poverty reduction, human development index, Nigeria.*

INTRODUCTION

Poverty has long been recognised as an international plague and one of the most prominent problems of the whole world, and in particular developing countries where endemic poverty is grimmer and challenging. It is not surprising therefore that the growing momentum to fight poverty across nations of the world is evident in the spirit and agenda of the Sustainable Development Goals (SDGs) as they combine efforts to eradicate poverty and increase the development of poor countries. The SDGs which are built on the Millennium Development Goals (MDGs) have moved poverty reduction to the very top of the international development agenda, thus setting poverty reduction as a fundamental objective of development (Jaiyesimi, 2016; Strafford-Smith, Griggs & Gaffney 2016; Goodness, 2013). Consequently, studies on the development of the financial sector as crucial factor to entrepreneurial capabilities, economic

development and poverty alleviation sat well with Governments of poor countries and sparked a mass of reforms in their financial sector (Muhammad 2014; Maduka & Onwuka, 2013).

While poverty has increasingly become a global issue, in the Nigerian context, it has been assuming a wider dimension including household income poverty, food poverty, insecurity, poor access to public service, infrastructure and illiteracy (Ogunjiuba, 2014 and Goodness, 2013). According to human development report (2016), a study of Human Development Index (HDI), a measure of the incidence of poverty was conducted using high, medium and low categories. Report showed that the ranking for Nigeria is in the Low Human Development category. Similarly, Maryam (2017), noted that Nigeria ranked 152 out of 188 countries in the low index category. Whereas, to say that human capital development is crucial to any efforts to reduce poverty in Nigeria is to say the least.

Financial sector development however, is part of private sector development strategy to stimulate economic growth and reduce poverty. Hafiz, Abdul, Arif and Awais (2011) noted that financial sector can be developed by four different ways; improving efficiency of the financial sector, increasing the range of financial sector, improving regulation of the financial sector and by way of increasing access of more of the population to financial services in order to facilitate borrowing and investment in income earning assets. Thus, financial sector development has been adjudged as an effective instrument that can bring reduction in poverty directly by widening access to financial services for the poor, facilitate transactions and thus increase their income and indirectly through its positive impact on economic growth which in turn helps in reducing poverty (Yaya, 2017; Azran, Dilawar, Ejaz & Waheed, 2012; Hafiz, Abdul, Arif & Awais 2011; Zhuang, Herath, Yoko, Muhammad, Yi, Rana, Niny, Anneli, Pamela, & Biao 2009; Todaro, 1997; McKinnon, 1973 & Shaw, 1973). While this have been debated for a very long time by development economies and practitioners, their empirical evidences were used as justification for the reform of the financial sector in developing countries (McKinnon, 1973 and Shaw, 1973).

No doubt, the interrelationship between financial development and growth is extensive on the theoretical and empirical literature (Otto, Ekine & Ukpere, 2012; Odhiambo 2010). However, the relationship between financial development and poverty reduction with particular attention to human development has not been explored so much in the Nigerian context. Poverty reduction strategy, therefore, will take more importance compared to growth model for the developing countries like Nigeria. This is due to the fact that economic progress though may lead to increase in growth, does not necessarily improve the lives of the poor (Todaro, 1997).

The main focus of this study therefore is to provide an argument for financial sector development process and poverty reduction interrelationship in Nigeria. The study adds to literature by contributing to the raging debate on the direction of relationship between financial development and poverty reduction. In Nigeria, very few related researches have been conducted using Human Development Index as proxy for well-being or poverty level. This study is an attempt in this direction.

Following this introduction, section two undertakes a review of relevant literature. Section three outlines the methodology. Section four presents the empirical results and findings. Section five provides conclusion and policy implications.

LITERATURE REVIEW

Financial Development and Poverty Reduction Theory

Theoretically, there are two strands of thought which emerged to explain financial development and poverty reduction nexus. The first theoretical model works indirectly through growth while the other works directly through the poor benefitting from accessing financial services (Zhuang, Herath, Yoko, Muhammad, Yi, Rana, Niny, Anneli, Pamela, & Biao 2009). According to the indirect theory, the impact of growth on poverty reduction runs through a number of possible channels. First, economic growth has the propensity to generate jobs for the poor. Second, a higher rate of growth could possibly reduce wage differentials between skilled and unskilled labour at a later stage of development (Galor & Tsiddon, 1996), which benefits the poor. Third, high growth could lead to higher tax revenues, enabling the government to allocate more fiscal resources on social spending such as health, education, and social protection, and hence benefiting the poor; and the poor would also be able to invest more in human capital (Perroti, 1993). Fourth, as capital accumulation increases with high economic growth, more funds would become available to the poor for investment purposes (Aghion and Bolton, 1997), thus increasing their income.

There were however different views on the growth–poverty reduction nexus in the earlier literature. The popular Kuznets's inverted-U hypothesis (Kuznets 1955, 1963) suggests that economic growth may increase income inequality at the early stage of development but reduce it at the mature stage of industrialization. The asset-rich classes who can self-finance or have easy access to finance would reap the early harvest of industrialization and thus garner a higher share of the economic pie, leaving the poor disadvantaged. On the other hand, the "trickle down" (shared-growth) theory postulated that economic growth would either trickle down to the poor through job creation and other economic opportunities or create the necessary conditions for the wider distribution of the economic and social benefits of growth (Todaro, 1997).

Many economists are of the view that financial intermediary development will have a disproportionately beneficial impact on the poor. This is because informational asymmetries produce credit constraints that are particularly binding on the poor as they do not have the resources to fund their own projects, nor the collateral to access bank credit (Banerjee & Newman 1993; Galor and Zeira 1993; Aghion & Bolton 1997). These credit constraints restrict the poor from exploiting investment opportunities, thus slowing aggregate growth by keeping capital from flowing to its highest-value use. A poorly functioning financial system will produce higher income inequality by disproportionately keeping capital from flowing to "wealth-deficient" entrepreneurs. Given these conflicting views, it is left to empirical investigation to determine whether or not financial system development is consequential to poverty reduction and human development. This study is an attempt in this direction.

The study, however, adopts the UNDP measure of well-being, The Human Development Index (HDI) as used by Ranis (2004). The index provides theoretical basis for exploring the relationship between financial development and human development.

Poverty Indicators, Poverty Measurement and Financial Development Variables
Several indicators have been developed to measure poverty. Anyanwu (1997) posits that there are seven kinds of absolute poverty measures: the headcount ratio/incidence of poverty, the poverty gap/income shortfall, disparity of income distribution, composite poverty measure, the Physical Quality of Life Index (POLI), the augmented Physical Quality of Life Index (APOLI) and the Human Development Index (HDI). The HDI is the most recent composite index devised by the United Nations Development Programme (UNDP) to measure the incidence of human poverty (Anyanwu, 1997). The index focuses on human development. It is 'people centred' as the primary objective of development is people. Measurement of poverty was acclaimed possible by Deaton (2001) through a measure of income and the use of human development index (HDI) involving a measure of several associated factors. The HDI looks beyond GDP to a broader definition of well-being. It incorporates income and non-income dimensions of human development factors which include; life expectancy at birth, literacy rate (combined primary, secondary and tertiary enrolment) and per capital income (GNP per capita). It is calculated using this formula:

HDI = 1/3 (Life expectancy index) + 1/3 (Education index) + 1/3 (Gross Domestic Product index). Similarly, Onwioduokit (2006) posits that it is hard to find an indicator that can directly measure the development of the financial sector. However, from the recent literature, measures of financial development include the ratio of broad money (M2) to GDP, currency outside bank as a ratio of broad money (M2), interest rate spread, real interest rate and gross savings as a ration of GDP.

Empirical Literature
There are numerous researches that have tested empirically the impact of financial development on poverty reduction. Yaya (2017) estimates the relationship between financial developments, economic growth and poverty reduction in nine African countries using auto regressive distributed lag model (ARDL). The result shows evidence of long run relationship among the variables in eight countries with GDP and financial deepening having a positive effect on poverty reduction in five countries (Benin, Cameroon, Cote d'Ivoire, Gabon and South Africa), and poverty reduction having a positive effect on economic growth in three countries (Ghana, Nigeria and Senegal).

Azran, Dilawar, Ejaz and Waheed (2012) carried out similar study in Pakistan using the auto regressive distributed lad model (ARDL) with error correction method to investigate the impact of financial development on poverty reduction. The results indicated that financial deepening (domestic credit to private sector and broad money supply) had impact on consumption per capital used as proxy for poverty. However, domestic bank asset was not found to have long run impact on poverty. In a related study, Benjamin (2012) used the 2SLS to investigate the impact of financial development on poverty reduction in developing countries. The study reported that increasing the availability of money and deposit opportunities rather than private credit have helped reduce poverty in developing countries.

Gazi, Muhammad, Mohamed and Frederic (2013), investigates the relationship between financial development, economic growth and poverty reduction in Bangladesh over the period between 1975-2011. All variables are tested for their order of co-integration in Bangladesh using the ADF and Zivot-Andrew structural break tests. Findings indicated that long run relationship between financial development, economic growth and poverty reduction exists in Bangladesh.

Adam (2012) evaluates the impact of Ghana financial openness induced growth on poverty reduction. The finding suggests a positive relationship between growth and financial liberalisation. On whether financial liberilisation benefits the poor, the finding suggests a positive relationship, but in a disproportionate manner. Therefore, on the basis of the findings, they argued that credit channels are more efficient ways of addressing poverty if supported by a good policy intervention. On the other hand, Nasreddine and Sami (2018) examine the impact of financial development on poverty reduction in middle-income countries using several estimation techniques. The result indicate that development of the banking system does not necessarily improve the poor's conditions. However, development of the stock market does. Muhammad (2014), attempts to examine the presuppose causal relationship between financial sector development, economic growth and poverty reduction in Nigeria. The study uses Autoregressive Distributed Lag model (ARDL). Empirical result of the study reveals that financial sector development does not cause poverty reduction. This implies that increase in the supply of loanable funds due to financial sector development is not enough to ensure poverty reduction.

Similar report was documented by Yinusa and Alimi (2015). They examine the relationship between financial development, income inequality and poverty reduction in Nigeria. The paper used the Johansen Cointegration test to examine the existence of long run relationship and the error correction model for the short run relationship. The findings indicated that financial development does not reduce poverty and income inequality significantly and therefore, the Greenwood and Jovanovich (GJ) hypothesis does not hold in Nigeria. Riskat and Kayode (2014) investigates the nexus between financial sector development and poverty reduction in Nigeria using vector autoregressive (VAR) model. The study reveals that credit to private sector, contrary to the general belief, have failed to cause a reduction in the incidence of poverty in Nigeria.

In the case of African countries, Fowowe and Abidoye (2012) investigate the impact of financial development, inflation and trade openness on poverty reduction. Findings reveal that financial development does not seem to reduce poverty, but poverty is reduced by trade openness and low inflation.Based on the above, the review of empirical studies suggests that the direction of relationship between financial development and poverty reduction have been mixed and are awash with empirical irregularities. This further informs the need for this study.

METHODOLOGY

Sources of data and method of analysis

The study used mainly secondary data in its analysis. Empirical investigation was carried out on the basis of the sample covering the period 1988- 2017. Data were obtained from the Central Bank of Nigeria (CBN) statistical bulletin 2017, World Bank economic indicators as well as National

Bureau of Statistics (NBS). The equation specified for the study was estimated using the ordinary least squares (OLS) method. ADF Unit Root Test was employed to test the stationarity of the time series data. The long run relationship among the variables was estimated using Johansen Co-integration test.

Model Specification

Following the empirical specifications in Mankiw, Romer and Weil (1992) which was used to analyze the linkages between financial development and economic growth. The model specified thus:

$$Y = f(k, FD, Z) \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad 1$$

Where Y= Output (GDP), K= capital (foreign direct investment and domestic investment), FD= financial deepening variables and Z= other variables affecting growth.

In specifying the model for this study, emphasis is placed on whether the nation's financial development has any significant influence on poverty reduction. Therefore, to meet the desired objective, the above framework was modified for the purpose of looking beyond GDP (income) to using Human Development Index (HDI), a broader definition of well-being/poverty measure. The modified equation therefore can be explicitly specified as follows:

$$POV = HDI = f(k, FD, Z) \quad \ldots\ldots\ldots\ldots\ldots \quad (2)$$

$$HDI = f(k, FD, Z) \quad \ldots\ldots\ldots\ldots\ldots \quad (3)$$

$$HDI_t = f(SGDP_t, M2/GDP_t, CPS/GDP_t, FDI_t, AGD_t, AGC_t, INT_t) \quad \ldots\ldots\ldots \quad (4)$$

FD_t represents financial deepening variables denoted by $SGDP_t$, $M2/GDP_t$ and CPS/GDP_t

Z represents other control variables denoted by FDI_t, AGD_t, AGC_t and INT_t.

Log-linearizing equation (4) and adding the error term, we obtain an explicit estimable econometric model as follows:

$$1n\ HDI_t = \alpha_0 + \alpha_1\ 1n\ SGDP_t + \alpha_2\ 1n\ M2/GDP_t + \alpha_3\ 1n\ CPS/GDP_t + \alpha_4\ 1n\ FDI_t + \alpha_5\ 1n\ AGD_t + \alpha_6\ 1n\ AGC_t + \alpha_7\ 1n\ INT_t + \varepsilon_t \quad \ldots\ldots\ldots\ldots\ldots\ldots \quad (5)$$

Where $InHDI_t$ is Log of Human Development Index (proxy for poverty level) at period t

$InSGDP_t$ is Log of Aggregate Saving to GDP at period t

$InM2/GDP_t$ is Log of Ratio of broad money supply to GDP at period t

$InCPS/GDP_t$ is Log of Ratio of domestic credit to private sector to GDP at period t

$InFDI_t$ is Log of Foreign direct investment at period t

$InAGD_t$ is Log of Aggregate deposit (saving) at period t

$InAGC_t$ is Log of Aggregate credit at period t

$InINT_t$ is Log of Lending rate at period t

Analysis of results and discussion of findings
Testing for Stationarity

The Augmented Dickey-Fuller (ADF) Unit Root Test is used to determine the stationarity of data and order of integration. The decision rule states that ADF Test statistics value must be greater than Mackinnon Critical Value at 5% level of significance and at absolute term. The table below shows the result of the ADF Unit Root Test.

Table 1: Results of ADF Unit Root Test

Variables	ADF Test Statistics @ Level	Mackinnon Critical value @5% Level	ADF Test Statistics @ 1st difference	Mackinnon Cr. Value @ 5% 1st diff.	Order of Integration
HDI	-0.915553	-2.9705	-3.230730*	-2.9750	I(1)
SGDP	-2.832882	-2.9705	-3.681482*	-2.9750	I(1)
M$_2$/GDP	-1.971011	-2.9705	-3.630449*	-2.9750	I(1)
CPS/GDP	-1.825272	-2.9705	-4.200178*	-2.9750	I(1)
FDI	-2.590320	-2.9705	-3.885842*	-2.9750	I(1)
AGD	-0.504970	-2.9705	-6.635246*	-2.9750	I(1)
AGC	-0.051377	-2.9705	-4.210178*	-2.9750	I(1)
INT	-1.609716	-2.9705	-5.086847*	-2.9750	I(1)

(*) denotes stationarity established at Mackinnon Critical Value @ 5% level of significance
Source: Author's Computation

The analysis begins with the test of stationary of the data (unit root) using ADF test as in Table 1 above. The ADF unit root is calculated for the individual series to provide evidence of absence of spurious or nonsense regression and to conclude that variables are integrated or dependent. The result shows that all the variables are stationary at first difference and as such, are integrated in the same order.

Co-integration Test

Table 2 below reports the co-integration test. Co-integration test determines the existence of long-run relationship among the variables in the model. The condition for co-integration is that the trace statistic (likelihood ratio) must be greater than the critical value at 5% and 1% levels of significance.

Table 2: Johansen Co-Integration Test

Eigenvalue	Likelihood Ratio	5 Percent Critical Value	1 Percent Critical Value	Hypothesized No. of CE(s)
0.938511	278.4672	156.00	168.36	None **
0.931149	200.3779	124.24	133.57	At most 1 **
0.874505	125.4550	94.15	103.18	At most 2 **
0.615524	67.34136	68.52	76.07	At most 3
0.403514	40.57688	47.21	54.46	At most 4
0.387004	26.10931	29.68	35.65	At most 5
0.307420	12.40621	15.41	20.04	At most 6
0.072950	2.120928	3.76	6.65	At most 7

*(**) denotes rejection of the hypothesis at 5% (1%) significance levels
L.R. test indicates 3 co-integrating equations at 5% significance level
Source: Author's computation using *E-views 7* software

The result from the co-integration test from Table 2 above shows three co-integrating equations; thereby suggesting that there is co-integration i.e. evidence of long-run relationship among the

variables. The evidence of multivariate co-integration test result suggests that financial development indicators and poverty reduction indicator are co-integrated indicating that the variables move together in the long run such that short-term disturbances from the long-term would be corrected.

Table 3: OLS Regression Result
The summary of the regression from ordinary least square analysis is as shown in the table below
Dependent variable = HDI

Variable	Coefficien	Std. Error	t-Statistic	Prob.
C	3.411482	0.405888	8.404984*	0.0000
SGDP	0.048475	0.034169	1.418678	0.1700
M2GDP	0.017916	0.184504	0.097101	0.9235
CPSGDP	-0.258251	0.135438	-1.906783*	0.0697
FDI	0.005476	0.033742	0.162280	0.8726
AGD	-0.050735	0.022839	-2.221423*	0.0369
AGC	0.135642	0.041087	3.301360*	0.0033
INT	-0.112750	0.076098	-1.481647	0.1526
R-squared	0.840974	Mean dependent var		3.761369
Adjusted R-squared	0.790375	S.D. dependent var		0.181623
S.E. of regression	0.083156	Akaike info criterion		-.913018
Sum squared resid	0.152128	Schwarz criterion		-.539365
Log likelihood	36.69527	F-statistic		16.62031*
Durbin-Watson stat	1.295092	Prob(F-statistic)		0.000000

(*) denotes statistical significance at 95% confidence level
Source: E view 7.0 version

Analysis and Interpretation of Findings
The result in the table above reveals the relationship between financial development indicators and Human Development index (HDI) used as proxy for poverty level in Nigeria. Generally, the result shows that the model is statistically significant with the F statistics = 16.62031 at p value 0.000 < 0.05. This is an indication that HDI is a function of financial sector development. Put differently, financial sector development has both positive and significant relationship on poverty reduction in Nigeria. Thus, it is assumed that a rise in HDI occasioned by financial sector development will all things being equal bring about a reduction in poverty level. Similarly, the estimated econometric model reveals that dependent variable, Human Development Index (HDI) is positively related to four of the explanatory variables namely:

Aggregate Saving to GDP (SGDP), Ratio of broad money supply to GDP (M2/GDP), Foreign Direct Investment (FDI), and Aggregate Credit (AGC). The signs of SGDP, M2/GDP, FDI and AGC are consistent with most financial development and poverty interrelationship. The result, however, reveals that HDI is inversely related to Ratio of Domestic Credit to private sector to GDP (CPS/GDP), Aggregate deposit (saving) (AGD) and the Lending Rate (INT). The coefficient of Aggregate Saving to GDP (SGDP) is positive but statistically insignificant at 5% level. The positive relationship with HDI (a proxy for poverty reduction) agrees with our a priori expectation. This suggests that marginal increase in aggregate saving to GDP will all things being equal have a positive impact on human development. The larger the saving rate, the greater the intermediation

efficiency of financial institutions. This perhaps suggests that banks efficiently transform savings to credits and for productive purposes. Aghion and Bolton (1997) agreed that as capital accumulation increases with high economic growth, more funds would become available to the poor for investment purposes thus increasing their income, wealth creation and possibly their standard of living denoted by HDI. The coefficient of ratio of broad money supply to GDP (M2/GDP), a measure of the size of the banking sector in relation to the economy as a whole is positive but statistically insignificant. This indicates that a marginal increase in the available pro-poor financial services and saving opportunities would lead to increase in the well-being of the people. This is consistent with previous studies showing that financial development and poverty reduction are related (Yaya, 2017; Gazi, Muhammad, Mohamed and Frederic 2013; & Azran, Dilawar, Ejaz and Waheed 2012). The coefficient of Foreign Direct Investment is positive though insignificant. Notwithstanding this, the study expects investment to be an important determinant of improvement on the standard of living of people. Similarly, Aggregate credit (AGC) is positively related to HDI and significant as expected. This agrees with our a priori expectation.

On the other hand, the coefficient of ratio of domestic credit to private sector to GDP (CPS/GDP) is negative and insignificant. The result contradicts our expectation. In another study, Riskat and Kayode (2014) argued that in Nigeria, deposit money banks have penchants for short term lending while they avoid financing long term projects of the real sectors due to the perceived risk associated with such lending. This perhaps might account for the negative relationship between CPS/GDP and HDI used as proxy for the well-being of the people within the period under consideration. Thus, the direct effect according to Zhuang, et al. (2009) that financial sector development can impact poverty reduction directly through the poor benefiting from accessing financial services does not apply in the Nigerian situation.

The result also shows a significant negative relationship between Aggregate deposit (AGD) (deposit opportunities available to deposit money banks) and HDI. This perhaps suggests that the volume of deposit mobilization by deposit money banks in Nigeria is relatively low to what is needed to transform the economy and as well as the standard of living of the people. Similarly, the coefficient of lending rate is also correctly signed i.e negative but insignificant, thus upholding the theory that increased interest rate discourages borrowing, stifles investment, retards economic growth as well as the fight against poverty and ultimately hampers human development efforts in a nation. This result signals the need for moderate lending rate to accommodate more private investors particularly in the SMEs, boost productivity, and reduce poverty in Nigeria. According to Iweala (2005), this will enable the poor engage in economic activities and be more self-reliant. The diagnostic statistics conducted on this model suggests that the model estimate is generally desirable. The high R^2 and adjusted R^2 of 0.841 and 0.79 respectively on the average show that the model has a good fit. The co-efficient of multiple determination (R^2) shows that 84.1% of changes in HDI is explained by the explanatory variables while 15.9% is explained by the stochastic variable (error term) or factors not accounted in the model. The R^2 shows that financial sector development has a significant effect on poverty reduction in Nigeria. The F-statistics value of 16.62031 shows that the model is statistically significant, presaging that the whole model

adequately explains the positive relationship between financial development and poverty reduction proxy by HDI.

CONCLUSION AND POLICY IMPLICATIONS

The paper examines the effect of financial sector development on poverty reduction in Nigeria over the period 1988 to 2017 with special emphasis on deposit money banks, using Human Development Index as a surrogate for poverty level. From the findings, the following conclusions are drawn. Financial sector development has both positive and significant relationship with HDI used as proxy for poverty level. It was found that aggregate saving as a ratio of GDP (SGDP) and broad money supply as a ratio of GDP (M2/GDP) impacts positively on human development though insignificantly. Findings also show that foreign direct investment (FDI), and aggregate credit (AGC) are positively related to HDI thus, are critical to human development as well as enhancing the standard of living of the people in Nigeria. Similarly, aggregate credit (AGC) which manifests in the ability of the banking sector to provide credit facilities, facilitate borrowing and investment in income earning assets, and stimulate the private sector, in particular small and medium scale enterprises (SMEs), impacts positively on HDI. However, and quite unexpectedly, domestic credit to private sector as a ratio of GDP (CPS/GDP) is negatively correlated to HDI. The result also shows a significant negative relationship between aggregate deposit (AGD) (deposit opportunities available to deposit money banks) and HDI. This suggests that the volume of deposit mobilization by deposit money banks in Nigeria is relatively low to what is needed to transform the economy and enhance the standard of living of the people. The policy implications arising from this study therefore include the need to create more money to boost the pro-poor sectors, most especially the private sector, by channeling adequate credit to the sector. Similarly, to avoid crowding out the real sector and make more loanable funds available to the pro-poor sector of the economy, government should minimize its borrowing activities in the financial market resulting in huge investment expenditure locked up in government securities such as treasury bills and government bonds. Deposit money banks should be more strategic and innovative in its deposit mobilization efforts from the public. Government should provide more conducive climate towards enhancing foreign direct investment which has the propensity to enhance human development in Nigeria. Realizing that human capital development is a prerequisite for poverty reduction, as well as a necessary and sufficient condition for enhancing the well-being of people in Nigeria, the objectives of policies aimed at further strengthening the banking sector should be people focused.

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