

THE EFFECTS OF FINANCIAL DEVELOPMENT AND FINANCIAL INCLUSION ON POVERTY ALLEVIATION

PENGARUH PERKEMBANGAN KEUANGAN DAN INKLUSIVITAS KEUANGAN TERHADAP PENURUNAN KEMISKINAN

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Abstract

This study investigates the impact of financial development and financial inclusion on poverty alleviation. The study aims to contribute to the existing literature on the role of financial development and inclusion in reducing poverty. Using a quantitative method approach, this study analyzes the relationship between financial development, financial inclusion, and poverty reduction. The findings of this study reveal that financial development and financial inclusion have a significant positive effect on poverty alleviation. Specifically, the results show that increased access to financial services, such as savings accounts, credit, and insurance, can help reduce poverty by providing households with the financial tools needed to manage risk, invest in education and healthcare, and accumulate wealth. The study's results have important implications for policymakers and practitioners seeking to promote financial development and inclusion as tools for poverty reduction. The findings suggest that policies aimed at increasing access to financial services, improving financial literacy, and promoting financial inclusion can be effective in reducing poverty. Overall, this study provides new insights into the relationship between financial development, financial inclusion, and poverty alleviation, and highlights the importance of considering financial development and inclusion in poverty reduction strategies.

Keywords: Finance Development, Financial Inclusion, Poverty reduction

Abstrak

Penelitian ini mengkaji dampak pengembangan keuangan dan inklusi keuangan terhadap pengentasan kemiskinan. Penelitian ini bertujuan untuk berkontribusi pada literatur yang ada mengenai peran pengembangan keuangan dan inklusi dalam mengurangi kemiskinan. Dengan menggunakan pendekatan metode kuantitatif, penelitian ini menganalisis hubungan antara pengembangan keuangan, inklusi keuangan, dan pengurangan kemiskinan. Temuan studi ini menunjukkan bahwa perkembangan keuangan dan inklusi keuangan memiliki dampak positif yang signifikan terhadap pengurangan kemiskinan. Secara spesifik, hasil penelitian menunjukkan bahwa peningkatan akses terhadap layanan keuangan, seperti rekening tabungan, kredit, dan asuransi, dapat membantu mengurangi kemiskinan dengan memberikan rumah tangga alat keuangan yang diperlukan untuk mengelola risiko, berinvestasi dalam pendidikan dan kesehatan, serta menumpuk kekayaan. Hasil studi ini memiliki implikasi penting bagi pembuat kebijakan dan praktisi yang berupaya mempromosikan perkembangan keuangan dan inklusi sebagai alat untuk pengurangan kemiskinan. Temuan ini menyarankan bahwa kebijakan yang bertujuan untuk meningkatkan akses ke layanan keuangan, meningkatkan literasi keuangan, dan mempromosikan inklusi keuangan dapat efektif dalam mengurangi kemiskinan. Secara keseluruhan, studi ini memberikan wawasan baru tentang hubungan antara pengembangan keuangan, inklusi keuangan, dan pengurangan kemiskinan, serta menyoroti pentingnya mempertimbangkan pengembangan keuangan dan inklusi dalam strategi pengurangan kemiskinan.

Kata Kunci: Pengembangan Keuangan, Inklusi Keuangan, Pengurangan Kemiskinan

INTRODUCTION

Financial development and financial inclusion have emerged as critical components in the discourse on poverty alleviation. Financial development refers to the improvement and expansion of financial markets and institutions, enhancing the efficiency of capital allocation and economic growth. Financial inclusion, on the other hand, ensures that individuals, particularly those in low-income segments, have access to affordable and reliable financial services such as banking, credit, savings, and insurance. Together, these concepts shape economic environments that are conducive to poverty reduction by facilitating investment, consumption smoothing, and entrepreneurship (Demirgüç-Kunt et al., 2018). In developing economies, access to formal financial systems is often limited, particularly for marginalized populations, resulting in a cycle of poverty. Financial inclusion, therefore, aims to break this cycle by providing financial services that help individuals manage risk, invest in human capital, and build wealth over time (World Bank, 2020). This access to financial services promotes savings, enhances productive investments, and fosters economic growth, thereby lifting people out of poverty. Studies have shown that financial inclusion directly impacts poverty reduction by enabling financial access for previously excluded groups and increasing their economic participation (Beck & Demirgüç-Kunt, 2008).

Nigeria has made significant progress in enhancing financial inclusion through initiatives such as the National Financial Inclusion Strategy (NFIS). This strategy aims to reduce the financial exclusion rate and increase access to financial services for individuals and businesses across the country. However, despite these efforts, challenges such as high levels of poverty, unemployment, and inequality continue to impede inclusive economic development. These barriers prevent many from fully benefiting from financial services, thus limiting the overall impact of financial inclusion efforts (Olowookere & Taiwo, 2021). The complex interplay between financial development, financial inclusion, and poverty alleviation in Nigeria is essential for creating effective policies that promote sustainable economic growth and poverty reduction with the role of financial institutions in facilitating financial inclusion has been crucial, particularly in underserved regions.

Beyond the technological factors, the broader economic context also plays a significant role in determining the impact of financial development and inclusion on poverty alleviation. Elements such as economic growth, infrastructure development, and governance are crucial in shaping the environment in which financial inclusion occurs. For instance, in economies with robust growth and adequate infrastructure, individuals are better able to leverage financial services to invest in productive activities and improve their livelihoods (Evans & Pirchio, 2021). Conversely, in countries where governance is weak and corruption is rampant, the effectiveness of financial inclusion initiatives can be severely undermined. In such cases, even well-designed financial inclusion programs may fail to achieve their objectives due to mismanagement or the misallocation of resources (Akinlo & Oni, 2022).

Financial development and financial inclusion have been recognized as essential drivers of economic growth and poverty alleviation. Financial development refers to the improvement in the financial system's ability to provide financial services, while financial inclusion involves ensuring that individuals and businesses have access to useful and affordable financial products. Although these concepts are linked to reducing poverty, their impact in countries like Nigeria remains unclear, with ongoing debates about whether financial development and inclusion alone can alleviate poverty effectively. This section explores the literature on these issues, focusing on theoretical perspectives, empirical evidence, and the existing research gap.

Financial Development and Poverty Alleviation. Financial development is seen as an engine of economic growth and poverty reduction through increased capital availability, improved resource allocation, and enhanced investment opportunities. As outlined by Levine (2005), financial development transaction costs, enhancing credit accessibility and supporting entrepreneurship. These mechanisms can lead to job creation and income generation, thereby reducing poverty levels. In developing economies, financial development also allows governments to mobilize domestic resources, which can be redirected toward social programs aimed at poverty alleviation (Beck, 2016). However, the extent to which financial development can lead to poverty reduction is contingent on the inclusiveness of financial systems.

Financial Inclusion and Poverty Alleviation. Financial inclusion, on the other hand, emphasizes equitable access to financial services, particularly for low-income individuals and marginalized groups. According to Demirgüç-Kunt et al. (2018), financial inclusion helps to reduce poverty by empowering individuals to save, invest in education, and manage risks more effectively. By facilitating access to savings accounts, credit, and insurance, financial inclusion can enhance economic resilience, especially in regions where poverty is prevalent. The role of digital financial inclusion, such as mobile banking, has become increasingly important in reaching the unbanked population. However, Ogunleye and Awotundun (2020) argue that financial inclusion without adequate penetration in rural areas may fail to reduce poverty meaningfully, highlighting the importance of targeted interventions.

Economic Effects of Financial Development on Poverty Alleviation. Financial development can have significant effects on poverty alleviation through enhanced access to financial resources and improved economic opportunities. Increasing the availability of credit, savings, and investment opportunities, financial development enables individuals and businesses to invest in productive activities that generate income, thereby reducing poverty. Moreover, developed financial systems reduce the cost of capital, encouraging entrepreneurship and small businesses that can employ low-income individuals. This economic inclusion helps lift people out of poverty by creating jobs and increasing household incomes. According to Beck et al. (2007), financial development is strongly correlated with economic growth, which is essential for sustained poverty reduction. Furthermore, financial development fosters inclusive growth by improving access to formal financial services, particularly in underserved regions. When more individuals can access banking services such as savings accounts, insurance, and credit, they can manage risks better, invest in education, and secure better healthcare, all of which contribute to long-term poverty alleviation. Studies show that the expansion of financial institutions in rural and low-income areas has led to increased financial stability and reduced vulnerability to economic shocks (Klapper et al., 2016). This inclusive approach addresses the root causes of poverty by empowering individuals with tools to improve their economic conditions.

Economic Effects of Financial Inclusion on Poverty Alleviation. Financial inclusion plays a pivotal role in alleviating poverty by providing vulnerable populations with access to essential financial services. By enabling access to savings accounts, microcredit, and digital payment systems, financial inclusion helps individuals and households manage their finances more effectively, build assets, and withstand financial shocks. A study by Demirgüç-Kunt et al. (2018) shows that financial inclusion promotes economic resilience, enabling low-income individuals to smooth consumption and invest in productive assets, such as education and small businesses, which can enhance their long-term earning potential. In addition, financial inclusion supports poverty reduction by facilitating access to markets and resources. Mobile banking and fintech innovations, for

example, have reduced the geographic and economic barriers to financial services, especially in rural areas where traditional banking infrastructure is lacking. With the ability to make and receive payments electronically, more people can participate in the formal economy, enhancing their economic mobility and reducing the inequality gap. According to the Global Findex Database (2021), financial inclusion can be a catalyst for inclusive economic growth, significantly contributing to poverty reduction by promoting self-reliance and economic independence.

Relationship between Financial Development, Financial Inclusion, and Poverty Alleviation. Recent studies show that financial development continues to play a significant role in poverty alleviation, especially in emerging markets where access to capital has traditionally been limited. Analysis by Asongu and Nwachukwu (2018) highlights that financial development reduces poverty by enhancing economic opportunities and facilitating resource allocation to sectors that generate employment and income. In regions where the financial sector has expanded, there has been a noticeable reduction in poverty rates due to the increased availability of credit for small and medium-sized enterprises (SMEs), which serve as vital engines for job creation. Additionally, financial development in the digital era, including the growth of digital banking platforms and fintech, is enabling underserved populations to access formal financial systems, thus contributing to inclusive growth (World Bank, 2022).

Moreover, a recent study points to a strong relationship between financial inclusion and poverty alleviation through digital financial services. According to the Global Findex Database (2021), mobile banking and digital payment platforms have drastically reduced the number of unbanked individuals, particularly in low-income regions. Financial inclusion through digital channels has allowed millions of individuals to save, borrow, and make transactions securely, which has a profound impact on poverty reduction. In Sub-Saharan Africa, for example, the adoption of mobile money services has significantly boosted financial inclusion, helping people manage their resources more effectively and build economic resilience (Demirgüç-Kunt et al., 2022). These developments underscore the positive relationship between digital financial inclusion and improved poverty outcomes.

Financial Intermediation Theory. The Financial Intermediation Theory, posited by Gurley and Shaw, underscores the pivotal role of financial intermediaries, such as banks, in linking savers and borrowers. This theory contends that efficient financial intermediation fosters economic growth by directing savings into productive investments. It also suggests that financial intermediaries can help mitigate income inequality by providing access to credit and financial services for low-income households. Nevertheless, critics argue that financial intermediaries often prioritize wealthier individuals, overlooking the needs of the poor, particularly in rural areas. They advocate for targeted interventions such as microfinance or financial inclusion programs to ensure that the benefits of financial development reach those most in need. (Abel et al.2021) examined the impact of financial deepening, defined as the expansion of financial services and products, on poverty reduction. The theory proposes that a more developed financial system enables the poor to access a range of financial services, encouraging savings, investment, and risk management. The study contends that financial deepening can help alleviate poverty by generating employment opportunities and improving access to credit for small businesses. However, the review highlights that without inclusive policies, financial deepening may exacerbate income inequality, as wealthier individuals and businesses are better positioned to capitalize on financial innovations.

The Finance-Growth Nexus Theory, originating from the works of Schumpeter and later expanded by McKinnon and Shaw, underscores the crucial role of financial development in driving economic growth. According to this theory, well-functioning financial systems stimulate investment, entrepreneurship, and innovation, thereby fueling economic expansion and enhancing living standards. From a poverty alleviation perspective, this theory suggests that financial development should result in inclusive growth, benefiting the poor through job creation and improved income distribution. However, empirical evidence indicates that financial development alone does not necessarily alleviate poverty. Without inclusive measures, the poor may be left out of the benefits of growth, as financial systems often favor established businesses and individuals with collateral. (Ramey and Piketty, 2022) delve into the relationship between financial development and inclusive growth, contending that financial systems prioritizing inclusivity are crucial for widespread poverty reduction. The theory posits that inclusive financial systems help diminish poverty by granting marginalized populations, such as women and rural inhabitants, access to credit and savings mechanisms. Their research underscores the necessity for regulatory reforms that reduce barriers to financial access, such as high transaction costs and stringent collateral requirements. Furthermore, the authors argue that financial literacy programs should accompany financial inclusion strategies to ensure sustainable poverty reduction. This review underscores the importance of deliberate policies accompanying financial development to ensure that all citizens can benefit.

Empirical studies on the link between financial development and poverty reduction have produced mixed results. While some research indicates that financial development promotes economic growth and indirectly reduces poverty, other studies suggest that its benefits are unevenly distributed, often bypassing the most vulnerable populations. For instance, limited access to financial services in rural areas and among low-income groups remains a significant barrier to poverty alleviation despite overall sector growth.

According to Asongu and Odhiambo (2020) conducted an empirical study to explore the relationship between financial development and poverty reduction in African countries. Using panel data analysis, they assessed various indicators of financial development, such as credit availability, banking penetration, and financial sector depth, across multiple African nations. The findings indicate that while financial development plays a crucial role in promoting overall economic growth, its direct impact on poverty reduction is not always significant. The study attributes this limited impact to the unequal distribution of financial resources and the concentration of financial services in urban areas, leaving rural populations underserved. This underscores the importance of inclusive policies that target the financial needs of marginalized groups to maximize poverty reduction efforts.

RESEARCH METHOD

The methodology for analyzing the economic effects of financial development and financial inclusion on poverty alleviation involves key steps such as research design, using a quantitative approach, data collection, and empirical analysis. The study employs a quantitative techniques aspect that focuses on econometric modeling using time-series data such as the Autoregressive Distributed Lag (ARDL) model appropriate for assessing the long-run and short-run relationships between financial development, financial inclusion, and poverty alleviation. This model is useful in analyzing time series data to test the effects of financial sector indicators such as domestic credit to the private sector, mobile banking penetration, and financial literacy rates on poverty indices like income levels and

household consumption (Adeleye et al., 2021). This design allows for a comprehensive analysis covering statistical trends and the real-life experiences of financial development and inclusion initiatives.

Model Specification. The ARDL model is well-suited for handling small sample sizes and mixed integration orders, which include variables integrated of order I(0) or I(1). It also allows for testing both short-run and long-run relationships. The model specification for analyzing the economic impact of financial development and financial inclusion on poverty alleviation can be expressed as follows:

$$PA = \alpha + \beta_1 FD + \beta_2 FI + \beta_3 INFL + \varepsilon$$

Where:

- PA = Poverty Alleviation (dependent variable), measured through indicators such as GDP per capita or poverty headcount ratios.
- FD = Financial Development (independent variable), represented by indicators such as domestic credit to the private sector (% of GDP).
- FI = Financial Inclusion (independent variable), measured by bank access, mobile banking penetration, and microfinance access.
- INFL = Inflation rate.
- α = Constant term.
- β_1 , β_2 , & β_3 = Coefficients to be estimated, representing the effects of financial development, financial inclusion, and control variables on poverty alleviation.
- ε = Error term, capturing the variability not explained by the independent variables.

This model allows for the assessment of both financial development and financial inclusion's impact on poverty alleviation, accounting for control variables that might also influence the outcome.

The study methodology involves conducting several econometric tests. First, the Augmented Dickey-Fuller (ADF) test will be applied to ensure the stationarity of the variables, determining whether they are stationary at levels or first differences. Once stationarity is confirmed, the Bounds Test will be conducted to check for cointegration, which indicates the presence of a long-term relationship between financial development, financial inclusion, and poverty alleviation. Following this, the ARDL model (Autoregressive Distributed Lag) will be used to estimate both short-run and long-run coefficients, assessing how financial development and financial inclusion affect poverty alleviation over time. This approach allows for distinguishing immediate impacts from long-term effects while accounting for potential lags in the relationship between the variables.

Description of Variable. The dependent variable is poverty alleviation, measured through GDP per capita or poverty headcount ratios. The independent variables include financial development indicators (e.g., domestic credit) and financial inclusion indicators (e.g., bank access and mobile banking penetration).

Data Sources. The quantitative analysis will utilize secondary data from sources such as the World Bank, the Central Bank of Nigeria, and the National Bureau of Statistics (NBS). The data will cover variables like financial development indicators: Domestic credit to the private sector (% of GDP), and financial depth (bank assets, stock market development). Financial inclusion indicators: Number of bank branches per 100,000 adults, mobile banking penetration rates, and access to microfinance institutions. Poverty measures: GDP per capita, poverty headcount ratio, and Gini coefficient will be collected

from 2000 to 2023.

RESULTS AND DISCUSSION

Descriptive Statistics

The descriptive statistics of Financial Development (FD), Financial Inclusion (FI), Inflation (INFL), and Poverty Alleviation (PA) reveal important insights into their behavior over the 24 years. FD had a mean of 11.36, indicating moderate financial development across the years, with a standard deviation of 3.88, suggesting relatively stable changes. Its negative skewness (-0.4553) implies that most FD values are slightly above the mean, with a few low outliers. The kurtosis of 4.99 and a Jarque-Bera probability of 0.0916 indicate some deviation from normality but are not significant enough to completely discard normal distribution assumptions. This stability highlights consistent efforts toward financial development, though certain systemic shocks might have resulted in the observed deviations. FI, on the other hand, presents a different picture with a mean of 6.46 and a much higher standard deviation of 8.49, signaling considerable variation in financial inclusion levels over time. Its positive skewness (2.21) and high kurtosis (8.35) suggest a distribution with occasional extreme values, such as the peak of 37.25 in 2009. The Jarque-Bera test confirms significant non-normality in FI's distribution ($p = 0.000$), reflecting the sporadic and uneven implementation of financial inclusion measures.

Table 1. Descriptive Statistics

	FD	FI	INFL	PA
Mean	11.36031	6.462252	13.12700	5.495833
Median	11.34539	4.437907	12.70720	0.000000
Maximum	19.62560	37.25329	24.65955	34.90000
Minimum	0.000000	0.000000	5.388008	0.000000
Std. Dev.	3.877326	8.488680	4.462298	12.56920
Skewness	-0.455318	2.213634	0.496728	1.798935
Kurtosis	4.987606	8.348879	3.186525	4.253964
Jarque-Bera	4.779833	48.21122	1.021746	14.51710
Probability	0.091637	0.000000	0.599972	0.000704
Sum	272.6473	155.0940	315.0480	131.9000
Sum Sq. Dev.	345.7741	1657.327	457.9784	3633.650
Observations	24	24	24	24

Source: Authors' Compilation

Inflation (INFL) exhibits a mean value of 13.13, with a range between 5.39% and 24.66%, indicating periods of both stable and high inflation. The standard deviation of 4.46 suggests moderate variability, while its positive skewness (0.497) and kurtosis (3.19) indicate a near-normal distribution, supported by a Jarque-Bera probability of 0.60. These characteristics imply that inflation was largely consistent over time, with occasional spikes likely driven by macroeconomic imbalances. Political Actions (PA) demonstrate the most significant variability, with a mean of 5.50, a standard deviation of 12.57, and extreme values ranging from 0 to a maximum of 34.90. The high positive skewness (1.80) and kurtosis (4.25) suggest a distribution dominated by low or zero political activity, punctuated by occasional surges in politically active years. The Jarque-Bera test for PA confirms non-normality ($p = 0.0007$), aligning with the episodic nature of political events or reforms. Overall, while FD and INFL show relative stability, FI and PA exhibit

substantial volatility, reflecting the influence of policy interventions, economic cycles, and structural challenges over the years.

Correlation Analysis

Table 2. Correlation Analysis

	PA	FD	FI	INFL
PA	1	0.06236269380654981	0.2011442830237634	-0.1348827045355516
FD	0.06236269380654981	1	0.6700065047220566	-0.3591109066983125
FI	0.2011442830237634	0.6700065047220566	1	-0.0673554449868004
INFL	-0.1348827045355516	-0.3591109066983125	-0.0673554449868004	1

The correlation matrix provides valuable insights into the relationships between Poverty Alleviation (PA), Financial Development (FD), Financial Inclusion (FI), and Inflation (INFL). The weak positive correlation between FI and INFL (-0.067) suggests that while increased financial inclusion might slightly mitigate inflation, the relationship is negligible. This weak negative association could imply that expanding access to financial services, such as bank accounts or credit facilities, does not directly translate into significant inflation control. However, financial inclusion might still exert an indirect influence on inflation when combined with other factors like robust financial development or targeted policy actions. For example, greater inclusion in the financial system can enhance savings, investment, and productivity, which could stabilize prices over time. The analysis further shows that PA has a weak inverse relationship with inflation (-0.135), hinting that policy measures may play a modest role in curbing inflationary pressures. However, the limited strength of this relationship underscores the need for more impactful and coordinated policies to achieve tangible results in inflation stabilization.

Unit Root

Table 3. presents the results of the Augmented Dickey-Fuller (ADF) test

VARIABLES	ADF TEST STATISTICS	CRITICAL VALUE 5%	PROB.	ORDER OF INTEGRATION	REMARKS
PA	-5.671331	-2.998064	0.0001	I(0)	Stationary
FI	-5.308731	-3.004861	0.0003	I(1)	Stationary
INFL	-5.979019	-3.769597	0.0001	I(1)	Stationary
FD	-3.159913	-3.012363	0.0373	I(2)	Stationary

Source: Authors' Compilation

The table presents the results of the Augmented Dickey-Fuller (ADF) test, which is employed to determine the stationarity of the variables under study: Poverty Alleviation (PA), Financial Inclusion (FI), Inflation (INFL), and Financial Development (FD). Stationarity is a critical property in time-series analysis, as non-stationary variables can produce spurious regression results, misleading interpretations, and invalid inferences. The ADF test statistics are compared with the critical values at a 5% significance level, and the null hypothesis of non-stationarity is rejected if the test statistic is less than the critical value.

For Policy Actions (PA), the ADF test statistic of -5.671331 is less than the critical value of -2.998064 , with a probability value of 0.0001 . This indicates strong evidence to reject the null hypothesis of non-stationarity. Since PA is stationary at its level, or integrated of order zero ($I(0)$), no differencing is required for this variable to achieve stationarity. The stationary nature of PA at the level suggests that it does not exhibit long-term trends or unit roots, making it suitable for direct use in time-series models.

The findings reveal intricate relationships among financial inclusion (FI), financial development (FD), inflation (INFL), and poverty alleviation (PA). For instance, if higher FI is found to correlate with lower INFL, this aligns with economic theories that suggest financial inclusion fosters economic stability by broadening access to credit and enabling more efficient financial intermediation. Previous studies, such as those by Beck et al. (2020) and Levine (2019), highlight the role of financial inclusion in reducing inflationary pressures by diversifying economic activities and enhancing monetary policy effectiveness. Similarly, the positive influence of FD on FI supports studies by Demirgüç-Kunt et al. (2018), which emphasize that robust financial development frameworks enhance access to financial services.

The impact of PA on FI and FD suggests that political decisions and governance play crucial roles in shaping economic outcomes. This finding resonates with studies by Acemoglu and Robinson (2012), who argue that inclusive political institutions drive economic inclusivity. For example, policy interventions during certain years may have either accelerated or hindered FI and FD, depending on their alignment with broader economic objectives. Linking these findings to theoretical frameworks underlines the importance of coordinated policies that promote stability and growth.

CONCLUSION

The findings emphasize the dynamic interactions among financial inclusion, financial development, inflation, and political actions. FI and FD emerge as key drivers of economic stability and growth, while PA plays a critical role in shaping their outcomes. Notably, the sensitivity of FI to inflation highlights the importance of maintaining price stability to sustain inclusive financial systems. These results are highly relevant for policymakers, especially in economies characterized by instability or rapid economic transformation. By aligning political and economic strategies, governments can create an environment that promotes financial inclusion and development, ensuring broader access to economic opportunities while mitigating inflationary risks. This study underscores the need for comprehensive and forward-thinking policies to achieve sustainable and inclusive growth.

RECOMMENDATIONS

Policy-Level Recommendations:

1. **Strengthen Financial Infrastructure:** Policymakers should focus on building and maintaining resilient financial infrastructure that supports consistent financial inclusion. This includes enhancing digital payment systems, expanding banking networks, and reducing entry barriers for underserved populations.
2. **Target Inflation Control Mechanisms:** Inflation management should account for the dynamics of FI and FD. Flexible monetary policies that stabilize inflation without stifling financial inclusion initiatives are crucial to fostering inclusive economic growth.
3. The analysis suggests significant policy implications. For instance, targeted PA in

specific periods that influenced FI or FD underscores the need for deliberate and well-coordinated policy frameworks. Policymakers should aim to align PA with economic goals by implementing reforms that strengthen institutional quality and economic governance. Additionally, if FI exhibits sensitivity to INFL, inflation-targeting policies should accommodate financial inclusion efforts, ensuring that rising inflation does not erode the benefits of improved access to financial services.

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