
Foreign Inflows and Financial Development in Nigeria

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Abstract: *The study ascertained the impact of foreign inflows on financial development in Nigeria from 1986 to 2025. Specifically, the study sought to examine the impact of external debt inflows (EDI), foreign direct investment (FDI), and diaspora remittances (DR) on financial development index (FINDX) in Nigeria. Secondary data extracted from World Bank Development indicators and international monetary fund where analyze using Autoregressive Distributed Lag (ARDL) model. Findings revealed that EDI exert a positive and significant influence on FINDX, in contrast FDI exhibit a negative and significant impact on FINDX; Diaspora remittances was found to have a positive but statistically insignificant effect on FINDX in Nigeria. Based on the findings the study recommends that Policymakers should prioritize the prudent and productive utilization of borrowed funds. External debt should be channeled into high-impact sectors such as infrastructure, manufacturing, and financial sector deepening initiatives, while maintaining strict debt sustainability frameworks to avoid excessive debt accumulation.*

Keywords: foreign inflows, external foreign direct investment, diaspora remittance, findx

INTRODUCTION

The financial system occupies a pivotal position in any economy due to its critical role in resource allocation and its capacity to stimulate economic growth. In this regard, the development of the financial sector is essential not only for the provision of funds to productive activities but also for reducing market frictions that hinder efficient financial intermediation (Adeagbo & Jimoh, 2023). Over the past few decades, developing economies, including Nigeria, have actively sought to attract foreign inflows on the premise that such inflows contribute positively to economic growth through channels such as technology transfer, productivity enhancement, introduction of advanced

production techniques, workforce training, managerial skill development, and integration into global production networks. However, the realization of these benefits is not automatic; rather, it is contingent upon the absorptive capacity of the host economy. Traditionally, this absorptive capacity has been largely associated with human capital development and trade openness (Afolabi et al., 2019).

More recently, financial development has emerged as a crucial mechanism through which foreign inflows translate into economic growth. A well-developed financial system enhances the efficiency with which foreign inflows are utilized by improving access to credit, enabling firms to acquire modern machinery, adopt advanced technologies, and upgrade both managerial and labor skills. Furthermore, an efficient financial system strengthens backward linkages by facilitating the integration of foreign capital into domestic production networks, thereby improving productivity and supporting local suppliers (Ajide et al., 2022). In this way, financial development plays a central role in ensuring that the spillover effects associated with foreign inflows are effectively absorbed within the economy.

However, global foreign inflows have experienced a general decline, particularly following the 2008 global financial crisis, thereby compelling developing countries to adopt more competitive strategies to attract investment. Beyond traditional determinants such as favorable policy environments, infrastructural development, and low labor costs, financial system efficiency has become increasingly important in influencing the attractiveness of host economies (Akubueze, 2020).

According to Agabi and Dibal (2024), financial institutions serve as the primary conduits through which foreign inflows enter receiving economies. In this process, banking institutions utilize these inflows, alongside domestic deposits, to deepen financial markets, facilitate technology and managerial transfer, and enhance liquidity within the banking sector. Similarly, Ang (2009) argues that the extent to which a country benefits from foreign inflows is largely determined by the level of financial development, noting that improvements in credit availability and financial system efficiency significantly increase a country's capacity to attract such inflows. Consequently, a well-functioning financial system enables the reallocation of resources from less productive to more productive sectors, thereby fostering technological innovation and structural transformation (Anetor, 2020). In addition, foreign inflows themselves contribute to the development of financial institutions by augmenting deposit bases and strengthening intermediation capacity, as banks transform short-term liabilities into long-term productive investments (Githaiga & Kabiru, 2014; Tarus, 2015).

Despite these potential benefits, recent trends indicate a persistent decline in foreign inflows, even as diaspora remittances have risen to comparable levels. In Nigeria, foreign investment inflows were valued at approximately USD 2.3 billion in 2019, increased marginally to USD 2.4 billion in 2020 despite the global disruptions caused by the COVID-19 pandemic, but subsequently declined to USD 1.87 billion in 2023 and further to USD 1.08 billion in 2024 (CBN, 2024). Notwithstanding these inflows, the depth, accessibility, and efficiency of Nigeria's financial institutions remain

below expectations when compared with several peer economies in Sub-Saharan Africa. This persistent gap underscores the need to empirically examine the impact of foreign inflows on financial development in Nigeria.

Statement of Problem

Foreign inflows play a very crucial role in developing the financial landscape of every developing country, of which Nigeria is inclusive. However, empirical evidence regarding the effect of foreign inflows on financial development in Nigeria remains inconclusive, some empirical findings showed that foreign inflows especially diaspora remittance stimulates development of financial institution (Anetor, 2020; Chorn & Siek, 2017; Urama et al., 2022; Emiola & Fagbohun, 2021; Williams, 2016; Tarus, 2015), while others with divergent findings discovered that foreign inflows do not lead to financial development in the host countries (Githaiga & Kabiru, 2014; Ustarz, 2023; Adebisi & Arikpo, 2017; Obadan, 2013). In spite of the seemingly impact of foreign inflows on financial institution development, it is evident that these shreds of empirical evidence are yet to reach an unanimity on the direction of this impact, thereby suggesting that foreign inflows can be either beneficial or harmful to financial development. The conflicting and mixed results reported by extant literature constituted a problem and has necessitated the need to investigate the influence of foreign inflows on financial development in Nigeria using external debt inflows, foreign direct investment and diaspora remittances as proxies for foreign inflows and financial development index as proxy for financial development.

Objectives of the Study

The primary objective of the study is to determine the effect of foreign inflows on financial development in Nigeria. The specific objectives are: To examine the effect of External debt inflows (EDI), Foreign Direct Investment (FDI), and diaspora remittances (DR) on financial development index in Nigeria.

REVIEW OF RELATED LITERATURE

Conceptual Review

Financial Development.

According to Agu (2023) financial development refers to the continuous improvement of a country's financial system comprising banks, capital markets, insurance firms, and other intermediaries in terms of efficiency, inclusiveness, and its capacity to mobilize and allocate resources toward productive activities. It involves the deepening and broadening of financial institutions, instruments, and markets that facilitate savings mobilization, investment financing, and the smooth circulation of funds within the economy (Iloanya, 2023; Osuji, 2015). Consistent with this view, it also embodies the enhancement of financial system functions in reducing information and transaction costs, thereby improving resource allocation and supporting

productive investments (Levine, 2021), as well as the expansion, efficiency, and stability of financial institutions and markets to improve access to financial services (Demirgüç-Kunt & Levine, 2022). Beyond mere institutional growth, financial development encompasses the quality, accessibility, and inclusiveness of financial services, often measured through indicators such as private sector credit, money supply, and market capitalization (Olulu-Briggs & Sunday-Goya, 2023; Nkamnebe et al., 2023). Ultimately, it strengthens financial intermediation between savers and investors, enhances capital formation and innovation, and serves as a critical driver of sustainable economic growth and welfare improvement, particularly in developing economies like Nigeria (Nkamnebe et al., 2023).

Foreign Inflows

Adeagbo & Jimoh (2023) viewed Foreign inflows as the movement of financial resources from the rest of the world into a domestic economy, encompassing various forms such as external borrowing, foreign direct investment, and diaspora remittances. Conceptually, they represent an important channel through which a country like Nigeria supplements its limited domestic savings, finances investment activities, and supports economic expansion. These inflows may be debt-creating, as in the case of external loans, or non-debt-creating, as observed with foreign direct investment and remittances (Adebisi & Arikpo, 2017). Their relevance to financial development lies in their capacity to enhance liquidity, deepen financial intermediation, and improve access to capital within the financial system. However, the overall impact of foreign inflows is largely dependent on their composition, stability, and the efficiency with which they are managed and allocated within the economy.

External Debt Inflows

External debt inflows refer to financial resources obtained by a country from foreign creditors, including multilateral institutions, bilateral partners, and international capital markets, typically in the form of loans and credit facilities (Adejumo, 2013). In Nigeria, these inflows are often mobilized to bridge domestic savings-investment gaps, finance infrastructural development, and support fiscal operations. External debt inflows represent a liability-creating source of foreign capital, as they impose future repayment obligations in terms of both principal and interest (Adeleke & Ogunyomi, 2021). Their contribution to financial development is therefore dualistic: on one hand, when efficiently utilized, such inflows can deepen the financial system by enhancing liquidity, promoting credit expansion, and facilitating capital market development; on the other hand, excessive or poorly managed external borrowing may exert pressure on the financial system through debt overhang, exchange rate volatility, and reduced investor confidence.

Foreign Direct Investment (FDI)

Foreign direct investment represents cross-border capital inflows in which a foreign investor acquires a lasting interest and a significant degree of control in a domestic enterprise (Afolabi, et al., 2019). Unlike portfolio investment, FDI is typically long-term in nature and is often accompanied by the transfer of technology, managerial expertise, and organizational practices.

Within the Nigerian economy, FDI flows are directed toward key sectors such as oil and gas, manufacturing, telecommunications, and services, thereby influencing both real sector productivity and financial sector sophistication (Agabi & Dibal, 2024). FDI is viewed as a non-debt-creating inflow that has the potential to stimulate financial development through several transmission channels, including the expansion of financial intermediation, increased demand for financial services, and the introduction of international best practices in corporate governance and risk management (Eze, et al., 2019).

Diaspora Remittances

According to Idoko & Taiga (2018) diaspora remittances refer to the transfer of money and other financial assets by migrants residing abroad to individuals, households, or institutions in their home country. In Nigeria, remittances constitute a significant and relatively stable source of foreign exchange, often exceeding official development assistance and, in some periods, rivaling foreign direct investment inflows. Remittances are regarded as non-debt-creating and largely countercyclical inflows that can play a vital role in promoting financial development (Khan, et al., 2025). They enhance household income, support consumption smoothing, and can stimulate savings and investment when channeled through formal financial institutions. Through these mechanisms, remittances may contribute to financial deepening by increasing bank deposits, encouraging financial inclusion, and expanding the reach of financial services.

Foreign Inflows and Financial Development in Nigeria.

Foreign inflows significantly influence financial development by providing external capital that supports investment, enhances liquidity, and deepens financial markets. These inflows contribute to the expansion and diversification of financial institutions through the introduction of new technologies, managerial expertise, and global financial practices (Idoko & Taiga, 2018). According to UNCTAD (2023), foreign inflows strengthen a country's financial system by increasing the volume of funds available for lending and investment, which in turn enhances financial intermediation and the efficiency of capital allocation. In developing economies like Nigeria, foreign inflows help bridge the savings-investment gap, promote credit creation, and foster the growth of capital markets. Consequently, the inflow of foreign resources stimulates economic activities, encourages competition in the financial sector, and improves access to financial services (Odubola & Desalu, 2017; Okonkwo, Egbunike, & Udeh, 2015).

Moreover, foreign inflows influence financial development by boosting confidence in the domestic financial system and promoting financial inclusion. As external capital enters the economy, it encourages the development of new financial products, strengthens the regulatory framework, and enhances institutional performance (Adeleke & Ogunyomi, 2021). The increased availability of foreign funds supports the expansion of credit to the private sector, facilitates infrastructure financing, and enhances the stability and resilience of the financial system (Obi, 2020). However, the extent of this impact depends on the host country's macroeconomic stability, institutional quality, and governance structures. When effectively managed, foreign inflows catalyse financial

deepening and sustainable economic development, but when poorly regulated, they may expose the financial system to external shocks and volatility (Eke & Okonkwo, 2022).

Theoretical Review.

This study adopted two theories (financial liberalization theory and endogenous growth theory). However, the study is anchored primarily on the financial liberalization theory. The two theories are discussed below;

Financial Liberalization Theory

The Financial Liberalization Theory was propounded by Ronald McKinnon (1973) in his work *Money and Capital in Economic Development* and Edward Shaw (1973) in *Financial Deepening in Economic Development*. The theory posits that government intervention in the financial system through interest rate ceilings, credit rationing, and restrictions on capital flows often distorts the financial market, leading to inefficiency and low levels of financial development. McKinnon and Shaw argue that by liberalizing financial markets allowing market forces to determine interest rates, removing barriers to foreign investment, and promoting free flow of capital countries can stimulate higher savings, efficient investment, and improved financial intermediation. The theory holds that when interest rates are market-determined, savings will rise, which provides more loanable funds for investment and enhances financial deepening.

This theory holds the following assumptions:

- i. Market forces allocate financial resources more efficiently than government controls.
- ii. Liberalization policies encourage the free flow of foreign capital, which promotes financial deepening and efficiency.
- iii. Deregulated interest rates lead to increased savings and investments, strengthening financial development.

This theory is highly relevant to this study because it provides the foundation for understanding how foreign inflows such as foreign direct investment, portfolio investment, and diaspora remittances can positively impact financial development in Nigeria. Through liberalization, the Nigerian financial system becomes more open and attractive to foreign investors, increasing the volume of inflows that contribute to credit expansion, liquidity, and efficiency within financial institutions. These inflows can improve the mobilization and allocation of capital, thereby enhancing financial depth and stability. However, a major critique of this theory is that rapid or poorly sequenced liberalization can lead to financial crises, especially in developing countries with weak institutions, poor regulatory oversight, and underdeveloped financial markets.

Endogenous Growth Theory

The Endogenous Growth Theory was developed by Paul Romer (1986) and Robert Lucas (1988) as a response to the limitations of the neoclassical growth theory, which viewed long-run growth as dependent on external technological progress. The theory posits that economic growth is driven by internal factors, particularly investments in human capital, innovation, knowledge spillovers, and financial sector efficiency. It emphasizes that growth can be sustained through policies and conditions that enhance productivity and innovation within the economy. In this framework, the financial system plays a crucial role by efficiently allocating resources, supporting entrepreneurship, and fostering technological advancement. Foreign inflows such as foreign direct investment, portfolio investments, and remittances are viewed as important channels through which technology transfer, managerial skills, and new financial instruments are introduced, all of which stimulate domestic financial development and long-term growth.

The theory is relevant to this study because it explains how foreign inflows contribute to financial development from within the economy by strengthening domestic institutions and supporting innovations in financial intermediation. In the context of Nigeria, inflows from abroad can expand access to finance, promote the creation of new financial products, and enhance the overall performance of the financial sector. Moreover, as the financial system becomes more efficient, it supports sustainable economic growth, consistent with the propositions of the endogenous growth framework. A major critique of this theory, however, is that it tends to overlook structural challenges such as poor governance, corruption, and weak institutions that may prevent developing economies from fully harnessing the benefits of foreign inflows.

The theory assumes the following:

- i. Financial development and technological progress are internally generated within the economy.
- ii. Foreign inflows enhance domestic innovation, learning, and capital formation that sustain growth.
- iii. A sound and efficient domestic financial system is essential for converting foreign inflows into long-term financial development.

Empirical Review

Sam, et al. (2025) investigated the relationship between Foreign Capital Inflows and Financial Development. This study adopts a panel research design using panel data, employing the two-step system GMM estimation technique for analysis. The results indicate that foreign direct investment and foreign portfolio investment have negative effects on financial development whereas remittances have a positive effect on financial development. When financial development is disaggregated, remittances flow is set to have a significant positive effect on financial development

in financial institutions whereas foreign direct investment and portfolio investment are said to have a negative and significant effect on financial development in financial markets.

Tyohen, et al (2024) examined the impact of foreign capital inflows on economic growth in Nigeria from 1986-2022. The study adopted ex-post factor design, sourcing data from the central bank of Nigeria statistical bulletin, National Bureau of Statistics, World Bank data base, the Global Economy database and UN comrade data base. The study employed the Vector Error Correction Model (VECM) for it estimation. The findings revealed that both foreign direct investment (FDI) and official development assistance (ODA), has positive and significant impact on real gross domestic product (RGDP). Conversely, foreign portfolio investment (FPI) has negative and insignificant impact on RGDP in Nigeria during the period under review.

Agabi & Dibal (2024) investigated the impact of foreign inflows on financial institutions development in Nigeria spanning 1981 to 2021. Employing the autoregressive distributed lag model, the findings of the study revealed that diaspora remittances have a positive and significant impact on financial institutions development in Nigeria in the long-run and short-run, while foreign direct investment and official development aids both presented negative and significant impact on financial institutions development in Nigeria in the short run. Inflation as a control variable presented both positive and significant impact on financial institutions development in Nigeria in the short-run and long-run.

Phuc & Anh (2024) investigated the role of domestic financial development in enhancing the positive effects of foreign direct investment (hereafter, FDI) on economic growth in Asian developing countries. Employing the pooled regression model (POOLED), fixed effects regression model (FEM) and random effects regression model (REM) are employed. The research findings show that foreign direct investment (FDI) alone does not have direct effect on economic growth but does have when combined FDI with financial development. Well-developed domestic financial markets promote the process of technological diffusion associated with in Asian developing countries. Therefore, FDI and domestic financial development are complementary in increasing the rate of economic growth in the region.

Pandey et al. (2024) investigated the relationship between Financial Development and Foreign Direct Investment Impact on Economic Growth. Utilizing the Autoregressive Distributed Lag (ARDL) bounds testing method and the Error Correction Model (ECM), the analysis uncovers a robust positive link between financial development and FDI in enhancing Nepal's economic output. Furthermore, both the short-term and long-term analyses prove to be reliable, devoid of issues like heteroscedasticity, autocorrelation, and multicollinearity. Importantly, the findings indicate that in the face of short-term disruptions, the dynamics between these variables adjust back to a long-term equilibrium state.

Ayobami & Rasheed (2023), examined the impact of foreign direct investment on agricultural and manufacturing outputs in Nigeria from 2017 to 2022. Secondary source of data collection was employed and obtained from the Federal Inland Revenue Service and CBN Statistical Bulletin.

The study used ARDL and Granger Co-integration test for analysis and findings showed, foreign direct investment negatively impact both manufacturing and agricultural output.

Khan, et al (2022) examined the interactive relationship between foreign direct investment and economic progress in Developing Countries. The empirical analysis relies on time-series data and employs econometric techniques, including ordinary least squares, fixed effects, and the generalized method of moments, using panel data from 2008–2024. The findings indicate that foreign direct investment has a statistically significant and positive effect on gross domestic product growth in developing countries. However, this effect is conditional on macroeconomic stability and the presence of well-developed financial institutions.

METHODOLOGY

Research Design

Research design is the framework of a research method. This is a blueprint or a research plan which allows the researcher to shape their work into a suitable study for the subject matter (McCombies, 2019). Bouchirika (2023) stated that the goal of research design is to make data address the problem of research clearly, accurately and unbiased. He stressed that a good research design should possess these four features as follows: neutrality, validity, reliability, and generalization. The research design adopted for this study is an *ex post facto* research design. The reason for adopting ex post facto research design is that the data to be used for the study already existed and cannot be interfered with.

Model Specification

The Autoregressive Distributed Lag (ARDL) model for the study is patterned after Khan, et al (2022)who investigated the effects of foreign inflows on economic growth in developing countries. The model of the study is stated below;

$$FIDX=f(EDI, FDI,DR)$$

The econometric form of the model is shown below;

$$\Delta FIDX_t = \beta_0 + \sum_{i=0}^n \beta_1 \Delta FIDX_{t-1} + \sum_{i=0}^n \beta_2 \Delta EDI_{t-1} + \sum_{i=0}^n \beta_3 \Delta FDI_{t-1} + \sum_{i=0}^n \beta_4 \Delta DR_{t-1} + \alpha_1 EDI_{t-1} + \alpha_2 FDI_{t-1} + \alpha_3 DR_{t-1} + \mu_t \dots \dots \dots (1)$$

Where;

FIDX= Financial development index

EDI = External debt inflows

FDI= Foreign direct investment

DR= Diaspora remittances.

β_0 = Intercept

$\beta_1 - \beta_3$ = Coefficient of the independent variables

μ = Error term

Analytical Techniques

The Autoregressive Distributed Lag (ARDL) technique involving multiple regression analysis is adopted here to evaluate the extent to which elements of foreign inflows impacts on financial development in Nigeria. The choice of this technique is on the premise that the ARDL model is superior to other analytical technique as it can model data integrated at both levels and first difference simultaneously. The analysis would be done with the aid of E-views 12 software.

DATA PRESENTATION AND ANALYSES

Descriptive statistics

The descriptive statistics is summarized in table 4.2 below:

Table 4.1: Descriptive Statistics

	Mean	Std. Dev.	Max	Min.	Prob.	Observations
FINDX	0.2081	0.0306	0.3188	0.1794	0.000	40
EDI	18700	13231	39662	60.045	0.263	40
FDI	3.3209	2.991	8.841	-3.311	0.877	40
DR	1.5601	8.191	2.431	1.061	0.066	40

Source: Author's Compilation from E-views 12 version

The descriptive statistics indicate that financial development in Nigeria, as measured by the Financial Development Index (FINDX), remained relatively stable over the study period, with a mean value of 0.2081 and low variability (standard deviation of 0.0306). This suggests a slow but consistent progression in the financial sector. External Debt Inflows (EDI), with an average of approximately ₦18,700 billion and a high standard deviation of ₦13,231 billion, exhibit substantial volatility, reflecting fluctuating borrowing patterns over time. Foreign Direct Investment (FDI), averaging ₦3.3209 trillion, also displays notable instability, including episodes of negative inflows (minimum of -₦3.311 trillion), indicative of capital reversals. Similarly, Diaspora Remittances (DR), with a mean of ₦1.5601 trillion, show considerable dispersion, suggesting inconsistent inflow patterns.

Table: 4.4 Correlation Table

Variables	FINDX	FDI	FPI	DR
FINDX	1.0000			
FDI	-0.536	1.0000		
FPI	0.5371	-0.724227	1.0000	
DR	0.3546	-0.4748	0.2653	1.0000

Source: Author's Computation using E-views 12 version (2026).

The correlation results reveal mixed and generally moderate relationships among the variables. Foreign Direct Investment (FDI) exhibits a moderate negative correlation (-0.536) with financial development, implying that higher FDI inflows are associated with lower levels of financial development. In contrast, Foreign Portfolio Investment (FPI) shows a moderate positive correlation (0.5371) with financial development, suggesting some alignment with financial market activities. Diaspora Remittances (DR) demonstrate a weak positive relationship (0.3546) with financial development, indicating a limited contributory role.

Regression Analysis

The result of the regression analysis is shown in Table 4.3.

Table 4.3 ARDL Short Run Regression Results

Variables	Coefficient	Std. Error	T-Stat	P-Values
Constant	0.0004	0.0062	0.0635	0.0095
EDI	8.1708	7.7707	0.1050	0.0256
FDI	-4.551	3.1912	-0.0143	0.0096
DR	5.0413	2.2112	0.2280	0.8221
R square (R ²)	0.531			
Adj. R ²	0.511			
F-Stat	0.015			
Prob(F-Stat)	0.008			
Durbin Watson	1.995			

Source: Author's Computation using E-views 12 version (2026).

The regression results indicate that the model possesses moderate explanatory power, with an R² value of 0.531, implying that approximately 53.1% of the variation in financial development is explained by external debt inflows, foreign direct investment, and diaspora remittances. The model is statistically significant overall, as evidenced by the F-statistic probability of 0.008, while the Durbin-Watson statistic of 1.995 confirms the absence of autocorrelation, thereby validating the reliability of the estimates.

EDI exhibit a positive and significant influence on financial development index (FINDX) as evidenced from the coefficient and probability values (B=8.1708, P= 0.0256), suggesting that

increases in external borrowing are associated with improvements in financial development. Implying that external borrowing in Nigeria is directed more toward deepening financial intermediation. FDI shows a negative and statistically significant effect on FINDX, indicating that higher FDI inflows are associated with a decline in financial development. Diaspora Remittances (DR) present a positive coefficient (5.0413) but remain statistically insignificant. This suggests that although remittances have the potential to enhance financial development, their actual impact is limited. This implies that remittance inflows are largely channeled toward household consumption rather than savings or investment through formal financial institutions, thereby weakening their developmental effect.

Test Hypotheses

Decision rule: Reject the null hypothesis (H_0) if the probability (p-value) is less than 0.05 (5% level of significance); otherwise, the null hypothesis is accepted.

Hypothesis One

H₀₁: Foreign Direct Investment (FDI) has no significant effect on Financial Development Index (FINDX) in Nigeria.

The regression result reveals that EDI has a coefficient of 8.1708 with a corresponding p-value of 0.0256. This indicates a negative but significant relationship with FINDX. The p-value, which falls below the 0.05 level of significance, implies that EDI not exerts a significant influence on financial development in.

Hypothesis Two

H₀₂: Foreign direct Investment (FDI) has no significant effect on Financial Development Index (FINDX) in Nigeria.

The estimated coefficient for FDI is -4.551 with a p-value of 0.0996. This implies that FDI exert a negative but statistically significant effect on FINDX. Accordingly, the null hypothesis is rejected and the study concludes that FDI exhibit a significant effect on FINDX.

Hypothesis Three

H₀₃: Diaspora Remittances (DR) have no significant effect on Financial Development Index (FINDX) in Nigeria.

The regression output shows that Diaspora Remittances (DR) have a coefficient of 5.0413 and a p-value of 0.8221. While the positive coefficient suggests that remittances may enhance financial development, the relationship is statistically insignificant since the p-value exceeds 0.05. This indicates that remittance inflows do not significantly drive financial development within the study period.

DISCUSSION OF FINDINGS

The empirical findings reveal that external debt inflows exert a positive and statistically significant influence on the financial development index in Nigeria, suggesting that borrowed external resources, when effectively channeled, contribute meaningfully to the deepening of the financial system. This outcome implies that external debt serves as a viable mechanism for enhancing liquidity, expanding credit availability, and strengthening financial intermediation within the economy. It further indicates that Nigeria's financial sector may be leveraging external borrowings to support infrastructural financing and institutional development, thereby promoting overall financial system efficiency. This finding aligns with the theoretical expectation that, in developing economies with limited domestic savings, external debt can complement capital formation and stimulate financial sector growth, provided that such funds are prudently managed and directed toward productive investments.

In contrast, foreign direct investment exhibits a negative and statistically significant relationship with financial development, implying that FDI inflows may not be effectively integrated into the domestic financial system. This could be attributed to the tendency of foreign investors to rely on external financing channels or repatriate profits, thereby limiting their contribution to domestic financial deepening. Additionally, diaspora remittances, while positive, are found to be statistically insignificant, indicating that although remittance inflows increase household income and consumption, they are not sufficiently mobilized through formal financial institutions to significantly enhance financial development.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary of Findings

The study investigated the impact of foreign inflows on financial development in Nigeria for a period of 40 years, spanning 1986 to 2025. Secondary data were used for this study, sourced from the World Bank Development Indicators and international monetary fund for the period of the study. The ex post facto research design was adopted. Therefore, the Autoregressive Distributed Lag (ARDL) model was used for analysis. Findings from the analysis revealed the following;

- i. EDI has a negative and statistically insignificant effect on FINDX in Nigeria.
- ii. FDI has a positive and statistically insignificant effect on FINDX in Nigeria.
- iii. DR has a positive and statistically insignificant effect on FINDX in Nigeria.

Conclusions

The study provides compelling evidence that external financial inflows exert heterogeneous effects on financial development in Nigeria. Specifically, while external debt inflows significantly enhance the financial development index, suggesting their instrumental role in deepening financial intermediation and liquidity, foreign direct investment exhibits a significant but adverse impact, indicating potential structural inefficiencies, profit repatriation, or weak domestic linkages that

may undermine its expected benefits. Conversely, diaspora remittances, although positive, remain statistically insignificant, implying that their contributions are largely consumption-driven rather than channeled into productive financial activities. These findings underscore the need for a more strategic and policy-driven approach to managing external inflows, ensuring that their composition, utilization, and regulatory environment are aligned with the overarching goal of sustainable financial sector development in Nigeria.

Recommendations

Based on the findings the following recommendations are proposed;

- i. Policymakers should prioritize the prudent and productive utilization of borrowed funds. External debt should be channeled into high-impact sectors such as infrastructure, manufacturing, and financial sector deepening initiatives, while maintaining strict debt sustainability frameworks to avoid excessive debt accumulation.
- ii. Government should implement policies that attract efficiency-seeking and technology-driven investments rather than extractive or profit-repatriation-oriented inflows. Strengthening regulatory frameworks, improving ease of doing business, and fostering linkages between foreign investors and domestic firms will enhance the developmental benefits of FDI.
- iii. Efforts should be made to formalize and channel diaspora remittances into the financial system. Policies such as reducing transaction costs, promoting diaspora investment instruments, and enhancing financial inclusion can help transform remittances into a more potent driver of financial development.

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