



Impact of foreign inflows on financial institution development in Nigeria: Evidence from ARDL approach

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Abstract

This study 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. The study, therefore concludes that foreign inflows impact the development of financial institutions in Nigeria and the direction of the impact is dependent on the nature and type of foreign inflows into the country. It therefore, recommends that policymakers should initiate the monetary authority policies that could display economic stability. This can be achieved when the Nigeria government improve on securities, give tax breaks and preferential exchange rates for foreign remittances to encourage home country investment through financial institutions.

Keywords: Diaspora remittances, financial institutions development, foreign direct investments, foreign inflows, official development aids

INTRODUCTION

The foreign inflows move into countries or regions in form of diaspora or personal remittances; foreign direct investment; official development assistance and foreign or external debt. They are being harnessed by Sub-Saharan Africans, sub-regions e.g. ECOWAS and other developing

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countries to bridge their saving-investment and foreign exchange gaps effected by inadequate domestic resources and trade imbalances respectively (Anidiobu et al., 2020). Obadan, (2004) decomposed foreign inflows into official development finance, foreign private investment, private and government capital, foreign portfolio investment, and diaspora remittances. The volatile nature of foreign portfolio investment and its accompanying vulnerability, therefore, endanger developing countries like Nigeria. It has short time horizon investment and could be easily divested, while foreign direct investment is more stable in nature. Diaspora remittances on the other hand, are significant part of the foreign inflows, especially with regard to laborexporting countries.

However, in recent years, foreign direct investment and foreign portfolio investment have been on downward trend meanwhile diaspora remittances have reached to the level of foreign direct investment inflows in recent years. Particularly, in Nigeria, the inflow of foreign direct investment stood at 2.3 billion dollars as at 2019, but this has significantly increased to 2.4 billion dollars in the year 2020 despite the Covid-19 global pandemic experienced across economies of the world. In the first quarter of 2021, Nigeria economy attracted about 2.4 billion dollars from diaspora remittances alone as the country continues to wrestle with foreign exchange challenges (CBN, 2021). Despite the increase in foreign inflows into the country, the financial institutions size, access and efficiency is still below expectation when compared to other countries in the Sub-Saharan Africa, the reason behind investigating the impact of foreign inflows on financial institutions development particular on the size, access and efficiency of financial institutions.

Financial institutions which remained the channels to which these foreign inflows cross over to the receiving countries, particularly, the banking institutions used these inflows in addition to funds deposited in the banks to deepen the financial markets, facilitate transfer of technology and management expertise; and enhance liquidity of the banking institutions. As reported by Ang, (2009), for a country to take full advantage of foreign inflows depends on the level of its financial development. He further opined that an increased in the size of financial development particularly, credit facilities as well as efficiency in the financial system facilities, exposes the host country to more foreign inflows. Therefore, the growth in technology innovation through the redistribution of resources from unproductive sector to productive sectors can be experienced in a well-developed financial system (Anetor, 2020). Foreign inflows are important to financial institutions development (Githaiga & Kabiru, 2014). They serve as channels in transferring these inflows from foreign countries to the host countries. These foreign inflows formed part of deposits to the banking institutions and the banks in turn execute their function of taking short-term deposits and transmitting same into long-term loans and advances (Tarus, 2015). Though financial development could be financial institutions or financial markets, however, this study intends to take the path of the financial institutions.

Several empirical works were reviewed on the responsiveness of financial institutions development to foreign inflows in Nigeria or other Sub-Saharan African countries. However, 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 institution 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 institution 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 institutions development in Nigeria. The other parts of the paper are organized as follows: second part stood as literature and theoretical reviews, third part is methodology while fourth and fifth parts are for results and discussion of findings respectively.

LITERATURE REVIEW

Conceptually, different authors agreed on what diaspora remittances meant even though these definitions were putted differently. Efobi et al. (2019) defined diaspora remittances as the financial flow from migration. This includes money transferred by non-residents to residents of a country including compensation received from abroad by the employees of the residents usually below one year. They are an important source of revenue to developing economies as well as residents and families for consumption (Bayar, 2017). Ratha and Mohapatra (2007) opined that the significant growth experienced in diaspora remittances over the years have in no doubt positioned diaspora remittance as a major source of foreign inflows in most SubSaharan countries exceeding foreign direct investment, official aids and even foreign portfolio. This has enhanced social welfare and economic growth. Ghosh (2006) indicated that remittances from the diaspora are an important source of external financing for developing countries and its role and benefits cannot easily be disregarded on economic and political context. Thus, not all assembled remittances are disbursed but part is saved for investment.

Concept of Foreign Direct Investments

Foreign direct investment is an investment by a foreign corporate entity in one country based in another country (Akporien & Umoffiong, 2020; Omodero & Ekwe, 2016). These foreign direct investments are in form of greenfield investment, mergers and acquisition, joint ventures, strategic alliances and licensing and portfolio investment, with the primary purpose of making a lasting interest and have substantial control in the foreign company (Ajide & Olowookere, 2022; Ibrahim & Isichei, 2023). Foreign direct investment comes in the form of inflows (inbound), which represents investments made by foreign companies into a host country, meanwhile, the outflows (outbound) are investments by domestic companies into foreign countries (Ugochukwu et. al., 2013; Agu et al., 2018). These forms of foreign direct investments played significant role in shaping global economy and influencing business landscape (Ugochukwu, et. al., 2013), capital market development (Haruna et al., 2023),

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economic growth (Ayanwale, 2007; Falki, 2009; Kumar & Pradhan, 2005) and entrepreneurial development (Eren et al., 2019; Misra et al., 2014; Nguyen, 2023).

Concept of Official Development Aids

The formal objective of official development assistance (ODA) otherwise called foreign aid is to foster citizenries' welfare and economic development in the developing economies (Organisation for Economic Cooperation and Development [OECD], 2019). They consist of grants or loans and technical corporations that one government or multilateral organization gives to a developing country to overcome bottlenecks in their economy (Ono & Sekiyama, 2023) with the essence to achieve the formal objective of promoting economic development and welfare.

Concept of Financial Institutions Development

According to Levine, (2004) financial system has five key functions: forecasting about possible investment and allocating capital towards such information; subsequently, monitoring the investments in line with corporate governance guideline after the disbursement of the capital; facilitate the trading; employ diversification strategy and risk management; mobilizing savings at the same time facilitating the exchange of goods and services. The occurrence of financial development is in place when the pillars of financial system such as the markets, instruments, intermediaries and the regulations facilitate the effects of information, transaction cost, enforcing the guiding principles in line with the basic roles of the financial system in an economy. A country's economic prosperity depends on its financial system efficiency in pooling savings and allocating same to investments. Miller (1998) posits that financial markets contribute to economic growth. Financial institutions serve as intermediaries through which funds are channeled. The degree of development in the financial institutions is key to private sector development in terms of protection of the creditors as well as contract execution among others which have the tendencies of attracting foreign inflows (Levine, 2004)

Shreds of empirical evidence have established links between foreign inflows on financial development. While some of these studies revealed that foreign inflows improve economic growth or financial development other are of contrary views. An earlier work by Ang (2009) examined the connection between financial development and foreign direct investment-growth in Malaysia for the period 1965-2004. Using composite index of financial development which are the summary of the four financial development indicators. The study reveals that output responded with positive relationships to foreign direct investment and financial development in long run. Financial development heightens the impact of FDI on output. To add on to these finding, casual relationships between variables under study were assessed and the outcome indicated that there are no bi-directional relationships between economic growth and FDI growth in the long run rather directional relationship exist.



Githaiga and Kabiru (2014) evaluated the responsiveness of financial development to remittances in Nigeria. Findings from this indicates that remittances revealed negative and significant effect on domestic private sector credit whereas it has insignificant effect on banks deposits. Tarus (2015) confirmed that attracting remittances into SSA could help unlock loanable funds required for private investment, while Williams (2016) revealed that financial development responded positively and significantly to remittances. Acheampong (2019) examined the interactive effects of foreign capital inflows and financial development on economic welfare in SSA spanning from 200-2013. GMM estimator was used to analyze the panel data for the 23 SSA countries. Firstly, the outcomes revealed that there exists a positive effect of the interface between foreign inflows and financial development on economic welfare in the SSA. Secondly, foreign capital inflows have indirect partial effect on economic welfare while financial development had a positive effect but becomes negative after one year. Thirdly, the total effect of the capital inflows on economic welfare is positive even though this it turns negative after a year, having domestic credit as the predominant source of financial development.

Theoretical Framework

This study adapts the theory of endogenous growth by Romer (1986) to explain the link between foreign inflows, financial development, and growth. The theory explains the potential effects of the changes in capital inflows and financial variables on the performance of an economy. Financial intermediaries assemble funds so that one naira of households' savings will be less than one naira of investment. Assuming that a portion of every naira saved is accessible for investment, the financial intermediaries keep it as a reward for services rendered. This transaction cost can be understood as the spread between the lending rate and the lending rate charged by these financial institutions. In a closed-economy, capital market equilibrium entails that the amount of household savings left when financial intermediaries deducted their portion of capital must be equal to gross investment. Financial development influences economic growth in two major channels. There it is said that financial development arises from financial intermediation that other factors can influence such financial innovation and government policy financial development. Financial development is assumed to be influenced by financial intermediation despite the fact that it can also be influenced by other factors such as policies of the government and technological innovation. Firstly, involves efficiency in channeling savings into investment. Banks tends to be more efficient in their intermediation role by minimizing the spread between lending and lending rates. Secondly, an upsurge in financial intermediation in capital allocation can effectively increase growth. This can be seen in the perspective of incorporate capital inflows, supposing foreign funds are invested in a host economy, the net capital inflows would add to a greater pool of savings accessible for investment is such economy.

Empirical Review

Basnet et al., (2021) studied the responsiveness financial sector to workers' remittances in 5 South Asian countries spanning 1980-2017. The PMG test result showed that financial

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development response to workers' remittances had a long-run link, supporting the understanding that there is a bidirectional long-run relationship between remittances and the development of the financial sector. Adekunle et al., (2020) evaluated the nexus between remittances and financial development in 53 Africa countries. From 1986-2017 and the result indicated that financial development responded positively to remittances in Africa in the long run and short run. Donou-Adonsou et al., (2020) examined whether there exists a relationship between remittances and financial development. A sample of 6 out of 10 receiver SSA countries were selected and the results revealed that positive significant relationship exist even in long run. Anetor (2020) investigated the effect of foreign inflows and the development of the financial sector in Nigeria from 1986Q1 to 2016Q4. The results of the study show that the complexity of FDI and financial development improves economic growth, investment portfolio, government development assistance, and transfer money do not affect economic growth. Also, FDI risks exerts great influence on growth as a result of the level of financial development.

Most recently, Okeke (2023) revealed that credit to private sector and market capitalization were positive and statistically insignificant in impacting affected foreign direct investment, though the effects were not statistically significant, while Ustarz (2023) examined the impact of capital inflows and volatility in the region vary differently across service, industry, and agricultural sectors for the period 1990-2017. The results documented after employing dynamic panel ordinary least square due to its ability to correct for endogeneity and serial correlation shows that capital flows and volatility have varying effects on the three sectors under study. In specific, only service sector has negative and significant effect, while FDI and cross-border bank lending volatilities displayed a depressing effect. In agricultural sector, only FDI has a negative impact, the rest revealed positive and significant relationship, while industrial sector, FDI and remittances impact growth but negatively. Mustapha-Jaji and Adesina-Uthman (2023) investigated the effect of remittances on financial development in Nigeria covering 1981 to 2021 using banking development and stock market development as proxies for financial development. Employing the autoregressive distributed lag model, the study revealed that international remittances positively affect banking sector development but hurts stock market development. Thus, the study concluded that international remittances affects financial development, however, the nature and direction of the effect is based on the dimension and type of financial development.

METHODOLOGY

The data meant for this study covered thirty-six (36) years from 1986 to 2021. This period is considered because all the variables under study have sufficient data for the investigation. The study aimed at investigating the impact of foreign inflows on financial institution development in Nigeria. In terms of dependent variable, the study used financial institutions index (FII) as a proxy for financial institutions development while the independent variable is foreign inflows proxied by foreign direct investment (FDI), diaspora remittance (DR), and official development assistance (ODA). Inflation (INF) as a control variable was factored into the model to

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strengthen the model. Table 1 provides the operationalized variables and measurements for the study.

Table 1: Operationalization of Variables

Variables	Measurement	Symbol	Source
Financial Institution Development	Financial institutions index	<i>FII</i>	Čihák, et al., (2012).
Foreign Inflows	Diaspora Remittances	<i>DR</i>	WDI
	Foreign Direct Investment	<i>FDI</i>	WDI
	Official Development Assistance	<i>ODA</i>	WDI
Control Variables	Inflation	<i>INF</i>	WDI

Source: Author's Compilation, 2023

Autoregressive Distributed Lag (ARDL) Approach

The autoregressive distributed lag model Pesaran and Shin (1998) and Pesaran et al. (2001) was adopted to investigate the impact of foreign inflows on financial institutions development in Nigeria, while inflation was factored onto the model as a control variable. This approach is built on the assumptions of the ordinary least square model because it has the capacity to accommodate both non-stationary time series as well as times series with mixed order of integration (Pesaran & Shin, 1999; Pesaran et al., 2001). In attacking numbers of econometrics problems such as autocorrelation, misspecification of model and putting up appropriate and interpretable model, ARDL takes sufficient numbers of lags to capture the data generating process from general to specific modelling framework. (Pesaran & Shin, 1999). In addition, the ARDL provides unbiased estimation and at the same time estimates both short and long run cointegration relationship (Pesaran et al., 2001; Qamruzzaman & Wei, 2018). Therefore, the ARDL model is presented below:

$$y_t = \sum_{j=1}^p \gamma_j y_{t-j} + \sum_{j=0}^q (\delta_j x_{t-j}) + \varepsilon_t \quad (1)$$

Going by theoretical and empirical literature, this study adapts the work of Williams, (2016) to investigate the impact of foreign inflows on financial institutions development in Nigeria with the use of autoregressive distributed lag by Pesaran and Shin (1998) and Pesara et al (2001) in order to address the research hypotheses raised in this study. The work of Williams, (2016) is therefore specified as

$$\ln (FD)_{it} = \alpha_i + \eta_t + \mu \ln (FD)_{it-1} + \delta \ln (rem)_{it-1} + \beta x_{it-1} + \varepsilon_{it}$$

Operationalising the variables for this study into the models, we, therefore, proposed as stated below:

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$$FID = f(DR, FDI, ODA, INF)$$

$$fid_{it} = \delta'_1 dr + \delta'_2 fdi_{i,t-j} + \delta'_3 oda_{i,t-j} + \delta'_4 inf_{i,t-j}$$

$$\Delta FII = \sum_{j=0}^q \gamma_{it} FII_{i,t-j} + \sum_{j=0}^q \delta'_1 DR_{i,t-j} + \sum_{j=0}^q \delta'_2 FDI_{i,t-j} + \sum_{j=0}^q \delta'_3 ODA_{i,t-j} + \sum_{j=0}^q \delta'_4 INF_{i,t-j}$$

Where: **FID** is financial institution development; **FII** is financial institution index; **DR** is diaspora remittance; **FDI** is foreign direct investments; **ODA** is official development assistance; **INF** is inflation; γ_{it} is the autoregressive parameter.

The error correction model is therefore presented below

$$\Delta FII = \sum_{j=0}^q \gamma_{it} FII_{i,t-j} + \sum_{j=0}^q \delta'_1 DR_{i,t-j} + \sum_{j=0}^q \delta'_2 FDI_{i,t-j} + \sum_{j=0}^q \delta'_3 ODA_{i,t-j} + \sum_{j=0}^q \delta'_4 INF_{i,t-j} + ect +$$

Stationarity Test

To ensure effective organization of the series generated for this study, unit root (stationary – ADF and Philip Perron) tests were employed to determine the order of integration in order to meet the assumptions of the ARDL model. **Bound Test of Co-integration**

Co-integration test using the ARDL bound test of cointegration was conducted to ascertain whether long run relationship exist among the variables of interest and the result is presented in Table 4.

RESULTS AND DISCUSSIONS

The descriptive statistics presented in Table 2 show that the standard deviation for all variables has observations not far from the sample mean except for inflation. The values of the skewness show that FII and DR are not too far away from zero which shows an evidence of normal skewness. The FII and DR values for the kurtosis are less than 3, which indicates negative kurtosis (platykurtic). The correlation matrix reveals the relationships that subsist between and



among the variables. The generally agreed value that reveals the presence of multicollinearity is 0.8 and above.

Table 2: Descriptive and Correlation Matrix ODA, FDI, DR, FII, and INF

	ODA	FDI	DR	FII	INF
Mean	0.191774	2.997214	1.627790	0.733943	19.44256
Median	0.183683	2.524661	1.415346	0.505348	12.70720
Maximum	0.244224	8.333830	5.790847	4.890344	72.83550
Minimum	0.149683	0.004883	0.183822	0.108876	5.388008
Std. Dev.	0.030271	2.456944	1.244446	0.940081	17.57477
Skewness	0.237316	0.308090	1.710833	3.612733	1.737863
Kurtosis	1.686852	1.846158	5.875116	15.24794	4.700181
Observations	36	36	36	36	36

Correlation					
FII	1				
DR	0.458471 <i>0.0049</i>	1			
FDI	-0.397441 <i>0.0164</i>	0.034492 <i>0.8417</i>	1		
ODA	-0.102259 <i>0.5529</i>	0.549583 <i>0.0005</i>	0.212667 <i>0.213</i>	1	
INF	-0.325328 <i>0.0529</i>	-0.361964 <i>0.0301</i>	0.463729 <i>0.0044</i>	-0.029847 <i>0.8628</i>	1

Source: Authors' Computation, 2024 (Eviews 9)

A preliminary test was conducted using the Augmented Dickey-Fuller (ADF) and Phillips Perron (PP) tests developed by Dickey and Fuller (1979) and Phillips and Perron (1988) respectively to determine the stationarity of the variables used. The results in Table 3 below shows that the variables series are all stationary and a blend of I(0) and I(1).

Table 3: Stationarity Test

Variables	PP			ADF		
	T-Statistics	Probability	Order of Integration	T-Statistics	Probability	Order of Integration
FII	-4.6839	0.0033 ***	I(0)	-3.5764	0.0471 **	I(0)
DR	-7.4189	0.0000 ***	I(1)	-6.0730	0.0000 ***	I(1)
FDI	-3.9521	0.0044 ***	I(0)	-3.9422	0.0045 ***	I(0)
ODA	-3.1035	0.0355 **	I(0)	-4.3104	0.0017 ***	I(0)
INF	-2.9051	0.0549 *	I(0)	-4.6577	0.0009 ***	I(0)



Notes: *, **, *** represents significant at 10%, 5% and 1% respectively
 Source: Authors' Computation, 2024 (Eviews 9)

Cointegration test presented in Table 4 shows the existence of a long-run relationship going by the F-statistics of 7.011460 which is above the upper bound I(1) value of 4.01 at a 5 per cent level. Therefore, foreign inflows and financial institution development move together in the long run.

Table 4: ARDL Cointegration Test Dependent Variable F-Statistics Outcome

Conclusion	FII	7.011460	Long-run Exist	Error Correction Model
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Note: I(0) = 2.45; and I(1) = 3.52 at 10%
 I(0) = 2.86; and I(1) = 4.01 at 5%
 I(0) = 3.74; and I(1) = 5.06 at 1%

Source: Authors' Computation, 2024 (Eviews 9)

In the short-run dynamics of the ARDL estimation in Table 5, show that diaspora remittances have a positively significant impact on financial institutions development in Nigeria at 5 per cent level of significant ($\beta = 0.008930, p < 0.05$), while foreign direct investment and official development aids have a negative and significant impact on financial institutions development in Nigeria at 10% ($\beta = -0.005704, p < 0.10$) and 5% ($\beta = -0.014934, p < 0.05$) respectively. Evidence of long-run relationship revealed that the impact of diaspora remittances on financial institutions development in Nigeria is positive and significant at 5% ($\beta = 0.022381, p < 0.05$), while foreign direct investment ($\beta = -0.011448, ns$) and official development aids ($\beta = 0.044061, ns$) have a negative and non-significant impact on financial institutions development in Nigeria. Inflation as a control variable revealed a short-run ($\beta = 0.000830, p < 0.05$) and longrun ($\beta = 0.001071, p < 0.10$) positive and significant impact on financial institutions development in Nigeria at 5% and 10 per cent respectively.

Also presented in Table 5, the estimated error correction form CointEq(-1) agreeing to the long run is negative at 5% level of significance. This indicates that foreign inflows and financial institutions development are co-integrated, and the errors in financial institutions development are corrected within the year at a convergence speed of 43.52% to return to equilibrium.

Table 5: Short- and Long-Run Estimates

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Short-run Coefficients				
D(FII(-1))	0.033983	0.178106	0.190801	0.8529
D(FII(-2))	-0.007525	0.146278	-0.051443	0.9601

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D(FII(-3))	-0.266028	0.141777	-1.876385	0.0933
D(DR)	0.008930	0.003752	2.379868	0.0412
D(DR(-1))	-0.000587	0.003588	-0.163606	0.8737
D(DR(-2))	-0.013676	0.005438	-2.514967	0.0330
D(DR(-3))	0.007894	0.004717	1.673489	0.1286
D(FDI)	-0.005704	0.002669	-2.137705	0.0612
D(FDI(-1))	0.002216	0.002563	0.864743	0.4096
D(ODA)	-0.014934	0.006411	-2.329396	0.0448
D(ODA(-1))	0.020821	0.010371	2.007589	0.0756
D(ODA(-2))	-0.002527	0.002884	-0.876302	0.4036
D(ODA(-3))	0.007365	0.002712	2.715825	0.0238
D(INF)	0.000830	0.000251	3.308244	0.0091
D(INF)	-0.000169	0.000279	-0.607568	0.5585
D(INF)	-0.000135	0.000282	-0.477928	0.6441
D(INF)	-0.000212	0.000216	-0.982400	0.3516
CointEq(-1)	-0.435215	0.162955	-2.670772	0.0256

Long-Run Coefficients

DR	0.022381	0.007834	2.856900	0.0189
FDI	-0.011448	0.009889	-1.157713	0.2768
ODA	-0.044061	0.028438	-1.549367	0.1557
INF	0.001071	0.000519	2.064407	0.0690
C	0.149877	0.029030	5.162883	0.0006

Source: Authors' Computation, 2024 (Eviews 9)

Table 6. Summary of Findings

Variables	FII	
	SR	LR
DR	Sig (+) **	Sig (+) **
FDI	Sig (-) *	NS
ODA	Sig (-) **	NS
INF	Sig (+) **	Sig (+) *

Note:

- SR* represents the short run and *LR* represents the long run
- NS* represents not significant; *Sig* represents significant
- (*) Significant at the 10%; (**) Significant at the 5%

Source: Authors' Computation, 2024 (Eviews 9)

Some diagnostic tests as presented in Table 7 were conducted to determine the validity, reliability and suitability of the regression model and to address the identified econometric

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problems. For the autocorrelation test by Durbin-Watson (1950, 1951) for first-order autocorrelation and Bruesch (1978) and Godfrey (1978) for the higher-order autocorrelation, the results satisfied the regression assumptions. Another diagnostic test by Bruesch and Pagan (1979) for heteroscedasticity and Jarque and Bera (1987) for normality also satisfied the regression assumptions. Also, the model was free from error using the Regressive Specification Error Test (RESET) by Ramsey (1969) and the model stability test using the CUSUM and CUSUMQ plots proposed by Brown et al. (1975) were employed and the plots fall within the 5 per cent significance level as presented in Figure 1 and Figure 2 respectively. **Table 7:**

Diagnostic test results

Specification	Stat (<i>p</i> -values)	Conclusion
Durbin–Watson (autocorrelation)	2.025215	No Autocorrelation
Bruesch–Godfrey (Serial Correlation)	2.013250 (0.2039)	No Serial Correlation
Bruesch–Pagan (heteroscedasticity)	0.847006 (0.6457)	No Heteroscedasticity
Jarque–Bera (normality)	1.691485 (0.429239)	Normality
Ramsey RESET Test	0.381811 (0.7125)	No Model specification error
R ²	0.980384	
F-statistics	20.44552 (0.000031)	

Source: Authors’ Computation, 2024 (Eviews 9)

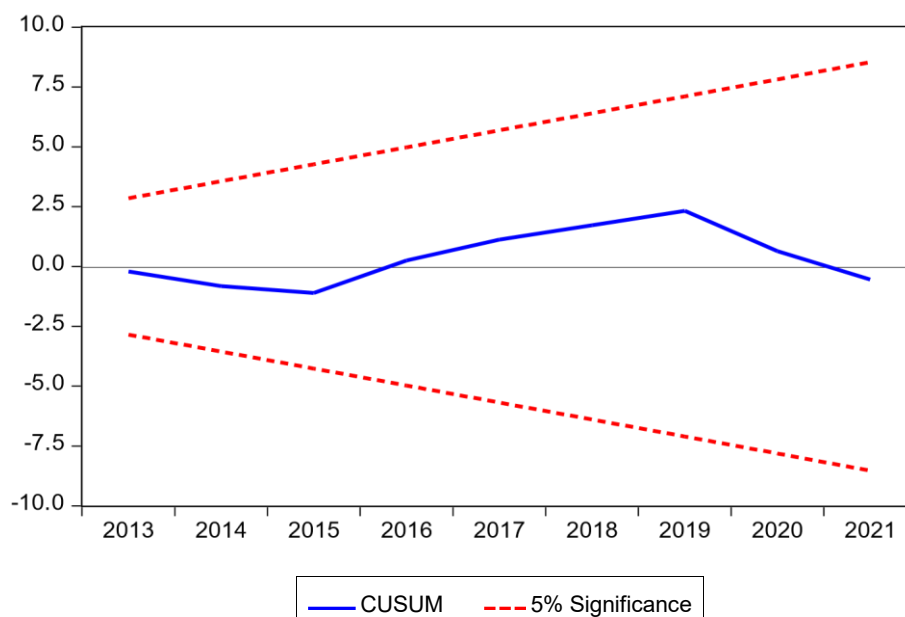


Figure 1: CUSUM Graph

Source: Authors’ Computation, 2024 (Eviews 9)

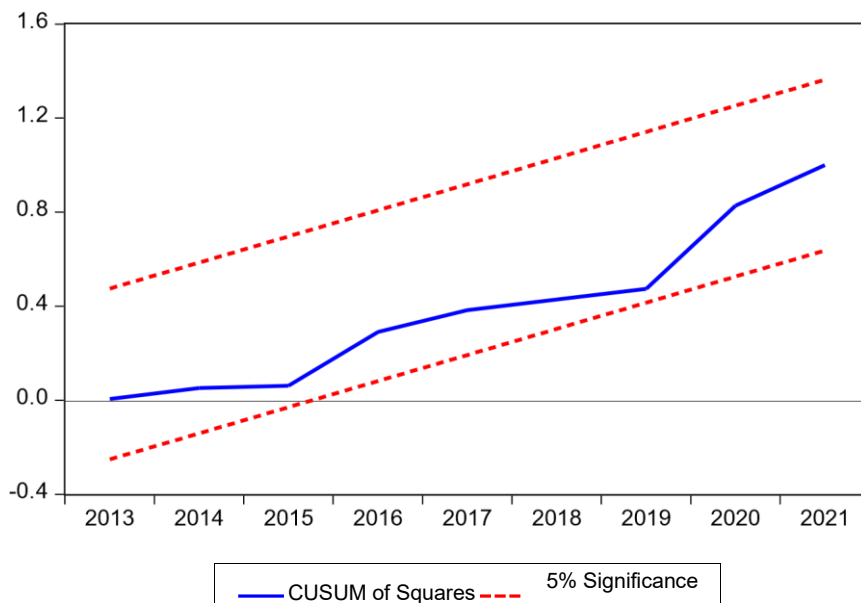


Figure 2: CUSUM of Squares Graph

Source: Authors' Computation, 2024 (Eviews 9)

The dynamics of the short run using the ARDL estimator in Table 5 show that the impact of diaspora remittances on financial institutions development in Nigeria is positive and significant at 5% ($\beta = 0.008930$, $p < 0.05$), while foreign direct investment and official development aids have a negative and significant impact on financial institutions development in Nigeria at 10 per cent ($\beta = -0.005704$, $p < 0.10$) and 5 per cent ($\beta = -0.014934$, $p < 0.05$) respectively. Evidence of the long-run relationship revealed that the impact of diaspora remittances on financial institutions development in Nigeria is positive and significant at 5% ($\beta = 0.022381$, $p < 0.05$), while foreign direct investment ($\beta = -0.011448$, ns) and official development aids ($\beta = -0.044061$, ns) have a negative and non-significant impact on financial institutions development in Nigeria. Inflation as a control variable revealed a short-run ($\beta = 0.000830$, $p < 0.05$) and long-run ($\beta = 0.001071$, $p < 0.10$) positive and significant impact on financial institutions development in Nigeria at 5% and 10% respectively.

Discussion of Findings

This study investigated the impact of foreign inflows on financial institutions development in Nigeria from the period 1986-2021. Specifically, it investigated the impact of diaspora remittance; foreign direct investment; and official development aids on financial institutions development proxied by financial institution index. The findings of the study revealed that diaspora remittance has a positive and significant impact on financial institutions development in Nigeria in short run and long run within the period under study. These findings are in consonance with the theory (endogenous growth theory) adapted for this study as well agreed with the studies of Williams (2016); Tarus, (2015); Donou-Adonsou et al. (2020); Basnet et al. (2021); and Adekunle et al. (2020).

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The results of the study also revealed that foreign direct investment have a negative and significant impact on financial institutions development in Nigeria in the short run within the period under study. These findings contradict the works of Emiola and Fagbohun (2021) and Anetor, (2020). For official development aids, in short run, the findings revealed that it has negative and significant impact on financial institutions development in Nigeria within short run. The finding also contradicts the studies done by Ustarz (2023); Anetor (2020), and Emiola and Fagbohun (2021).

CONCLUSION AND RECOMMENDATIONS

The study explored the impact of foreign inflows on financial institutions development in Nigeria. To measure foreign inflows, diaspora remittance, foreign direct investment and official development assistance were used as proxies, while financial institution index proxied financial institution development. This study concluded that diaspora remittance fosters the development of financial institutions in Nigeria in the short run and long run, while foreign direct investment and official development assistance do not influence financial institution development in both short and long run in Nigeria. Further findings revealed that inflation has a positive effect on financial institution development, this implies that the higher the inflation rate, the better the financial institutions become, which is logical considering that these inflows are in foreign currencies and with the Naira devaluation. It therefore, recommends that policymakers should initiate the monetary authority policies that could display economic stability. This can be achieved when the Nigeria government improve on securities, give tax breaks and preferential exchange rates for foreign remittances to encourage home country investment through financial institutions.

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