TSU-International Journal of Accounting and Finance (TSUIJAF)
e-ISSN: 28811-2709, p-ISSN: 28811-2695.Volume 3, Issue 3 (Oct, 2024).

FINANCIAL INTERMEDIARIES AND NIGERIAN ECONOMY: INNOVATIVE METHODOLOGIES AND CONVENTIONAL DESK REVIEW APPROACHES

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Abstract

This research investigates the function of financial intermediaries in influencing the Nigerian economy by integrating innovative methodologies with conventional desk review techniques. Financial intermediaries, comprising banks, microfinance institutions, and non-banking financial organizations, act as essential channels for the mobilization and distribution of capital within the economy. By employing a combination of empirical analysis and comprehensive literature review, this study assesses their influence on economic advancement, financial inclusion, and stability within Nigeria for the period of five years (2019-2024) The investigation explores both the prospects and obstacles presented by these intermediaries, emphasizing the efficacy of their operations in promoting sustainable development, alleviating financial risks, and bolstering small and medium enterprises (SMEs). Findings from the review indicate that; effective capital mobilization and distribution facilitate investments in critical sectors, driving economic growth, the integration of these innovations is still uneven, with some sectors lagging in adopting modern technologies. Findings also suggest that challenges such as limited access to credit, especially for small and medium enterprises (SMEs), continue to hamper their broader impact on financial inclusion. The study recommends among others that the Government should intensify efforts to ensure that access to financial services especially credit facilities to the undeserved population critically looked into in other to achieve inclusion.

Keywords: Financial institutions, Economic Growth, Financial Sector Development, Financial inclusion

Introduction

The role that financial intermediaries undertake in fostering economic advancement and developmental growth renders them indispensable entities within the financial ecosystem. They contribute significantly to the amelioration of prevalent market imperfections, particularly regarding transaction costs and information asymmetries (Akhmedovich, 2022).

In the analysis conducted by Riba and Mexhuani (2021), it is posited that joint-stock corporations can procure an array of services from financial intermediaries, encompassing outsourcing, consultancy, and underwriting. These intermediaries comprise banking institutions, depositories, and consultancy firms. Through the utilization of these services, joint-stock enterprises can enhance their market valuation on the stock exchange and penetrate the international stock market, thereby augmenting their equity and profitability.

The Schumpeterian growth model posits that financial intermediaries monitor entrepreneurs, finance entrepreneurial ventures, and aggregate deposits from households to alleviate moral hazard and stimulate economic development. Furthermore, intermediaries can address deficiencies in

financial and digital literacy, thereby enhancing financial accessibility through initiatives that integrate technological advancements with human interaction. They also contribute to the stability of the financial system and the optimal allocation of resources. The attainment of Pareto optimality can be facilitated through financial intermediation by diminishing the necessity for specific securities and offering insurance mechanisms against idiosyncratic risks. The increasing adoption of cryptocurrencies is noted, with expectations that they will assume a pivotal role within the banking system, necessitating intermediaries to safeguard tokens. Fundamental aspects of financial intermediation also encompass the issuance of currency by governmental entities and the competition presented by alternative payment modalities, including various forms of governmental disbursements (Akhmedovich, 2022).

Financial intermediation constitutes a process wherein financial institutions serve as intermediaries between savers and borrowers within the financial architecture. These institutions fulfill a critical function in facilitating the transfer of funds from individuals possessing surplus capital (savers) to those requiring funds for investment or consumption (borrowers). The principal aim of financial intermediation is to effectively channelize funds from savers to productive applications within the economy. Notwithstanding the substantial significance attributed to this concept, it is imperative to scrutinize this phenomenon, its components, and the potential ramifications it holds for the economy by employing both contemporary analytical techniques and comprehensive desk review methodologies.

This scholarly endeavor seeks to undertake a comprehensive review of the concept of financial intermediation, its constituent segments, and the consequential impact it exerts on the economy.

Literature Review

Conceptual Framework

Financial intermediaries play a vital role in the functioning of modern economies, acting as a conduit between savers and borrowers. In the Nigerian context, financial intermediaries—comprising commercial banks, insurance companies, pension funds, and microfinance institutions—are essential for mobilizing savings, promoting investment, and enhancing financial inclusion. This conceptual framework will explore the functions of financial intermediaries, their relationship with the Nigerian economy, and the challenges they face in contributing to sustainable economic growth.

The Role of Financial Intermediaries in the Economy

Financial intermediaries perform critical functions that influence the efficiency of the economy. Their primary roles include:

- Resource Mobilization: Financial intermediaries pool funds from surplus units (savers) and allocate them to deficit units (borrowers), thereby facilitating capital formation and efficient resource allocation (Levine, 2022).
- Risk Management: Through diversification of portfolios and risk assessment, intermediaries help mitigate financial risks, ensuring more secure investment environments (Mishkin, 2021).

- Liquidity Provision: Banks and other intermediaries provide liquidity to the financial system by offering products that allow savers to access funds while also enabling long-term lending (Olaniyi & Babajide, 2023).
- Payment Systems: Financial intermediaries support the economy by enabling secure and efficient payment and settlement systems, which are vital for both domestic and international trade (Ndungu, 2023).

Nigerian Economy and Financial Intermediaries

The Nigerian economy, which is driven by sectors such as oil and gas, agriculture, and services, relies on efficient financial systems for sustained growth. Financial intermediaries contribute to this by:

- Facilitating Investment in Key Sectors: Banks and other financial institutions provide the necessary capital for investments in agriculture, manufacturing, and infrastructure, which are critical for Nigeria's diversification efforts (Akinlo & Olayemi, 2022).
- Promoting Financial Inclusion: Microfinance institutions and mobile banking have played significant roles in improving access to financial services in underserved regions, particularly in rural areas (Sanusi & Afolabi, 2022).
- Economic Stabilization: The Central Bank of Nigeria (CBN) utilizes financial intermediaries as tools for implementing monetary policies that stabilize the economy during periods of inflation or recession (Ibeabuchi, 2023).

Challenges Facing Financial Intermediaries in Nigeria

Despite their importance, financial intermediaries in Nigeria face significant challenges:

- Regulatory and Policy Constraints: The regulatory environment, characterized by frequent policy changes, creates uncertainties that affect the operations of financial intermediaries (CBN, 2023).
- Non-Performing Loans (NPLs): High levels of NPLs in Nigerian banks affect their profitability and ability to extend credit to the private sector (Ogunleye & Alade, 2022).
- Infrastructure Deficit: Poor infrastructure, particularly in telecommunications and electricity, hinders the efficiency of financial services delivery, particularly in rural areas (Anyanwu & Udechukwu, 2023).

Depository and Non-Depository Financial Intermediation

Travkina, et al (2022) delineate two distinct categories of financial intermediation—namely, non-depository and depository financial intermediation—that are crucial for the effective operation of the financial system. Although both categories involve the reallocation of capital between savers and borrowers, they employ divergent financial instruments and methodologies. Non-bank financial institutions (NFIs), which are legitimate entities that do not function as banks, offer financial services such as insurance, credit cooperatives, and pension funds. NFIs play a pivotal role in the expansion of the financial sector in Ukraine and are duly registered and regulated under the auspices of the National Bank of Ukraine. While the operations of non-bank financial

institutions are believed to contribute to the increase in investment within the Russian economy, it is imperative to address structural and institutional challenges to facilitate their further advancement.

Financial Intermediation through Depository: Financial intermediation through depository mechanisms encompasses entities that accept public deposits and provide a variety of financial services. Examples of such entities include credit unions, savings banks, commercial banks, and other financial institutions that offer deposit accounts. Non-Depository Financial Intermediation: This form of financial intermediation involves institutions that do not accept traditional deposits but nonetheless play a critical role in enabling the transfer of funds between savers and borrowers. Investment banks, insurance companies, mutual funds, pension funds, and hedge funds exemplify such entities. Non-Depository Financial Intermediation engages in activities such as investment operations, wherein they frequently participate in financial markets, manage investment portfolios, and execute the buying and selling of securities, among other investment-related activities.

Financial intermediation and Microfinance banks

Contemporary scholars including Okello, et al. (2017); King and Levine (1993); Benhabib and Spiegel (2000); Arestis et al. (2001); and Wachtel (2001), among others, illustrate that microfinance banks have the capacity to stimulate economic development, particularly within rural contexts, by enhancing resource availability through the optimization of savings allocation.

Microfinance banks play a pivotal role in facilitating access to loans for deficit units, especially those located in rural regions, by employing the principles inherent in modern financial intermediation theory. They achieve this by obstructing savers and investors from participating in direct transactions due to the challenges posed by information asymmetry, which engenders moral hazard and adverse selection within financial exchanges (Akerlof, 1970). Indeed, Vincent (2022) posits that microfinance banks can enhance financial transactions while simultaneously reducing the costs associated with acquiring and processing information between surplus and deficit units. Consequently, resource distribution is improved as these institutions assume responsibility for the requisite monitoring (Diamond, 1984). They possess a distinct informational advantage over both savers and borrowers throughout the intermediation process, which facilitates this outcome.

According to Miho (2019), microfinance banks aggregate information from diverse sources that remains largely inaccessible within the financial sector, employing this data to extend credit to clientele such as marginalized individuals who are devoid of access to conventional commercial banking services.

Financial intermediation and financial inclusion

Biruk and Yan (2023) assert that the constructs of financial inclusion and financial intermediation are inherently interconnected. Financial intermediation, as defined by Oleksii & Medvid (2022), constitutes the mechanism through which capital is transferred from savers to borrowers via financial institutions, including banks and equity markets. This process encompasses the provision of financial services such as loans and investment opportunities to individuals and enterprises. Conversely, financial inclusion pertains to the accessibility and utilization of financial services by all individuals, particularly those who are unbanked or underbanked. Its objective is to foster economic advancement, alleviate poverty, and enhance individual welfare. A plethora of studies

indicates that financial inclusion and intermediation significantly influence the attainment of sustainable development objectives, economic growth, and the reduction of income inequality (Thomas, 2020).

Ishan, et al (2020) elucidate that financial intermediation is instrumental in shaping financial inclusion by bridging the divide between savers and borrowers, effectively channeling funds from those with surplus capital to those requiring financial resources. This encompasses various elements such as resource allocation, access to credit, savings and deposits, and risk mitigation, among others.

Financial Intermediation and the Supply of Liquidity

Khan (2018) argues that firms maintain liquid reserves to manage unforeseen costs. Financial intermediaries combine semi-liquid assets to create liquidity, but their capacity to meet future obligations is restricted by their capital. When liquidity is limited, investments decline, and liquidity premiums rise. Losses in the banking sector further exacerbate the investment reduction and increase in liquidity premiums. Despite the risk of loss, financial intermediaries offer credit lines to ensure future financing. However, when banks have low net worth, available liquidity diminishes, hindering optimal risk pooling in the economy. This scenario supports countercyclical liquidity provision (Dame, 2023; Kreamer, 2022). Financial Intermediation and Financial Technology

Cai (2018) elucidates the concept of financial technology, commonly referred to as FinTech, as the application of technological innovations to facilitate the provision of financial services. Although this concept originated in the early 1990s (Hochstein, 2015; Noula, 2012), it has gained substantial traction more recently due to its profound implications for the evolution of conventional financial services. Between the years 2008 and 2015, there was an extraordinary increase in global investment in FinTech, surging by over 2,200%, escalating from $930 million to beyond $22 billion, and nearly doubling again to surpass $40 billion by the year 2017.

Molnár (2018) and John and Nwekemezie (2019) underscore that the adoption of technology, particularly through mobile devices and internet platforms, is fundamentally transforming the interactions between businesses and their clientele. The advent of mobile and internet banking has fundamentally altered banking operations by providing enhanced convenience through self-service capabilities. By diminishing initial investments and transaction expenses, the pervasive utilization of the internet and contemporary technological advancements has effectively reduced entry barriers for emerging financial entities, thereby facilitating the ascendance of FinTech enterprises. According to Demirguç-Kunt, et al (2018), numerous firms have embraced an internet-centric model characterized by minimal physical infrastructure, predominantly leveraging online and mobile networks to satisfy the majority of customer requirements. This phenomenon exerts influence across both developed and developing economies. The transformative potential of FinTech is increasingly being acknowledged and harnessed by established financial institutions. Consequently, it is imperative for scholars to acknowledge the significance of this transition and reconsider the function of financial intermediation, thereby contributing to the further advancement of the sector.

Credit to the private Sector and Economic Growth

Yang et al. (2022) delineates private sector credit as the allocation of financial resources, encompassing loans, advances, non-equity securities, and trade credits, to the private sector. Economic growth, typically evaluated by the annual growth rate of real GDP, signifies the enduring expansion of an economy's productive capacity. Despite the existence of various methodologies for assessing growth, sustained real GDP growth stands as a principal indicator. Beck, et al (005) elucidate that productivity serves as a catalyst for long-term economic growth, with critical determinants such as labor, technological advancements, and access to credit influencing productivity levels. These determinants enhance both the quality of output and the efficiency of inputs. Therefore, the existence of a robust and inclusive financial system that supports viable economic initiatives is essential for promoting growth and development. Access to capital is paramount, as it augments a firm's capacity to improve productivity and expand operations. Cong (2022) posits that the net credit extended to the private sector by banking institutions plays a pivotal role in modulating the money supply, thereby facilitating either its expansion or contraction as warranted.

The Role of Financial Intermediation in Economic Growth

Bagehot (1873) posits that financial intermediation occupies a crucial position within the economy, as fluctuations in the total assets of financial intermediaries have significant repercussions on real GDP and other macroeconomic indicators on a global scale, a claim corroborated by the research of Shevchenko and Nataliia, (2022); Chatterjee, (2023) Over time, the dynamics of financial intermediation have evolved, with traditional banks assuming a diminished role while market-based intermediaries are exerting increasing influence. Mutual funds, in particular, now exert a more pronounced effect on economic outcomes compared to pension funds, while insurance companies and shadow banks continue to play essential roles in the financial ecosystem.

In Nigeria, Odom and Temuhale (2022) assert that financial intermediation exerts a substantial influence on real GDP; however, the mechanism remains flawed, leading to demands for enhanced regulation of banking credit practices. In a similar vein, Yakubu, et al (2021) identified that financial intermediation yields both immediate and enduring effects on Turkey's economic expansion, as evidenced by a composite index representing financial intermediation. Employing dynamic system modeling, they evaluated the ramifications of financial intermediation on economic growth. While competitive intermediaries encourage entrepreneurial ventures and broaden economic possibilities, they do not inherently facilitate equitable wealth distribution (Molnár, 2018).

Adusei and Afrane (2013) examine a dataset encompassing seventeen years (1995–2011) from twelve countries with credit unions (CUs) to investigate the correlation between CU financial intermediation and economic development. Through the application of the panel Generalized Method of Moments (GMM) estimation technique, their analysis uncovers a statistically significant positive correlation between CU financial intermediation and economic growth. Consequently, the research concludes that CU financial intermediation exerts a favorable influence on economic growth and advocates for its vigorous promotion within the studied nations.

Allen (1991) delineates several mechanisms through which financial intermediation can profoundly affect the economy, including:

Capital Allocation: Financial intermediaries enhance the efficient allocation of capital by directing funds from savers to borrowers, thereby fostering productive investments and propelling economic growth.

Risk Diversification: By aggregating resources from numerous savers and extending loans to various borrowers, financial intermediaries facilitate risk diversification and mitigation, thereby contributing to a more stable and resilient financial ecosystem.

Liquidity Transformation: Financial intermediaries furnish liquidity to savers while engaging in investments in less liquid assets, thereby supporting long-term investments and augmenting overall economic liquidity.

Credit Creation: Through the practice of fractional reserve banking, financial intermediaries expand the money supply, consequently stimulating economic activity and investment.

Interest Rate Determination: They exert influence over interest rates by balancing the supply and demand for loans, which subsequently impacts consumption, investment, and overall economic performance.

Transaction Facilitation: Financial intermediaries provide a spectrum of services, including payment processing and financial product offerings, thereby enhancing the operational efficiency of the economic system.

Contemporary Issues in Financial Intermediation

As posited by Al-Qadasi, et al (2022), contemporary financial intermediation faces a plethora of challenges. The emergence of financial innovations has led to the introduction of new intermediaries and the widespread adoption of digital currencies, while technological advancements have substantially reduced the costs tied to information transmission and processing, thus fostering competition and instigating organizational transformations within financial markets. Moreover, distributed ledger technology (DLT) holds the potential to fundamentally alter the roles and responsibilities of stakeholders within the financial sector, with the prospect of rendering correspondent banks superfluous (Stuart, Anjan, Arnoud, & Boot, 2016).

Regulatory Changes: Modifications to banking and financial regulations, exemplified by Basel III, exert a profound impact on the operational dynamics of financial intermediaries. Although these enhanced regulatory frameworks aspire to fortify financial stability, they concomitantly possess the capacity to influence the profitability and operational paradigms of financial institutions.

Cybersecurity Risks: As the utilization of technology escalates, financial intermediaries are encountering intensified cybersecurity vulnerabilities. Cyber-attacks may precipitate data breaches, financial detriment, and erosion of institutional reputations. The effective management and mitigation of these risks are of paramount importance.

Climate Risk and ESG Considerations: An increasing emphasis on environmental, social, and governance (ESG) considerations is being observed among financial intermediaries. In particular, climate risk has surged in prominence as institutions scrutinize the ramifications of climate change on their portfolios and embrace sustainable finance methodologies.

Low Interest Rates: Prolonged durations of diminished interest rates pose significant challenges for financial intermediaries, particularly banking institutions. The net interest margin—the differential between interest accrued on assets and interest disbursed on liabilities—may be constricted, adversely affecting profitability. Consequently, institutions are compelled to explore alternative revenue streams and risk management strategies.

Non-Performing Loans (NPLs): Economic uncertainties, such as those instigated by global phenomena like the COVID-19 pandemic, may precipitate an escalation in non-performing loans. Financial intermediaries are tasked with managing the risks associated with potential loan defaults.

Global Economic Uncertainty: Political and economic instabilities, encompassing trade disputes, geopolitical occurrences, and global health emergencies, can significantly influence financial markets and affect the operations of financial intermediaries. The necessity to adapt to changing economic conditions and to manage corresponding risks remains a persistent challenge. These factors accentuate the imperative for adaptability and resilience within financial intermediation. Financial institutions must adeptly navigate regulatory transformations, technological advancements, and economic uncertainties to uphold stability and effectively cater to their clientele.

Theoretical Framework

According to the financial intermediation theory, the proliferation of intermediaries typically aligns with the enhancement of the financial market. The advancement of the economy exhibits a correlation with the progression of the financial sector. Adekunle, Salami, et al (2015) were among the pioneers to articulate this concept. Intermediaries, as characterized by the theory, represent a "convergence" of private creditors and debtors who capitalize on economies of scale at the transactional technology level. In this context, transaction costs encompass the expenses associated with research, assessment, and oversight, in addition to the transfer costs linked to foreign exchange amounts.

Consequently, the role of financial intermediaries is to modify the characteristics (such as due date, liquidity, etc.) of assets; they also furnish liquidity and diversification opportunities through qualitative transformations of financial assets. The theory is applicable to institutions that accept deposits, provide insurance, and allocate funds to enterprises for investment purposes. Historically, banks have engaged in the acceptance of household deposits while extending loans to enterprises requiring financial support. Therefore, funds that are wholly or partially allocated for consumption do not facilitate economic growth. This theory is relevant to the investigation as savings are mobilized through financial intermediation, among other factors emphasized in the study. Economic agents allocate financial resources to lucrative undertakings. The economic agents invest the capital in productive economic activities that yield returns, thus enhancing economic growth.

According to Markjackson, et al (2017), the financial intermediation theory originated from the research conducted by Gurley and Shaw (1960) during the 20th century, which delineated the economy into spending units and financial intermediaries. They posited that financial intermediation is grounded in the theories of informational asymmetry and agency. This indicates that both surplus and deficit units were unable to engage in direct transactions due to a lack of essential information in the marketplace regarding both parties. Hence, this served as an indication

that the market was imperfect, contrary to certain prevailing assumptions. Consequently, they contended that financial intermediaries, such as banks, exist to mitigate information asymmetry and, consequently, transaction costs, thereby facilitating efficient exchanges between surplus (savers) and deficit (borrowers) units. Similarly, Birkenmaier, Kim, & Maynard (2022) observe that financial intermediaries form alliances that pertain to the dissemination of information. Information pertaining to specific asset classes, typically those associated with individuals, such as mortgages or insurance, which is not publicly accessible, can be procured through the allocation of resources. Nevertheless, this information could prove advantageous to prospective lenders if it becomes available alongside certain economies of scale. Therefore, this can only be realized if entities that collect and distribute information regarding specific asset classes exist within an economy. For this reason, the existence of financial intermediaries serves as a natural response to asymmetric information. This implies that information asymmetry constitutes the primary rationale for the existence of financial intermediaries within the financial market.

While these considerations may have historically constituted the foundational aspects of intermediary functions, Allen and Santomero (1997) contend that the focus placed upon the intermediary's role in mitigating transaction costs and addressing asymmetric information is excessively pronounced. Consequently, risk management has emerged as the predominant sphere of intermediary engagement, with classic intermediation theory providing scant justification for the rationale behind institutional involvement in this endeavor. Furthermore, financial intermediaries significantly reduce the costs associated with acquiring the requisite knowledge for efficient market utilization and habitual participation, which is vital for understanding the transformations that have transpired.

Empirical Review

Stephen and Obah (2017) executed an empirical investigation aimed at evaluating the impact of National Savings on the economic growth trajectory of Nigeria over the period spanning from 1990 to 2015, utilizing the Ordinary Least Squares (OLS) analytical technique. Their findings exhibited a statistically significant and affirmative correlation between National Savings and Gross Domestic Product (GDP). They advocated for the establishment of robust macroeconomic policies by governmental authorities to enhance the economic framework, attract foreign direct investment, and position Nigeria as a central hub for exports. Additionally, they recommended improvements to Nigeria's trade architecture and the promotion of savings initiatives.

Conversely, Shittu (2012) conducted a nation-specific analysis employing cointegration and error correction models to explore the ramifications of financial intermediation on Nigeria's economic growth from 1970 to 2010. Through the assessment of the ratio of domestic credit to the private sector (CPS) and the money supply (M2) in relation to nominal GDP, the study elucidated that broad money (M2) wielded a more pronounced impact on economic growth compared to credit extended to the private sector. The analysis further highlighted that, notwithstanding a notable increase in loans allocated to the private sector over the preceding century, the manufacturing sector experienced its nadir in annual growth rates.

In a similar vein, Adekunle, Salami, and Adedipe (2013) meticulously examined the interrelations between financial development and economic growth in Nigeria, with a particular focus on the role of the banking system. Their OLS analysis revealed that none of the independent variables

attained statistical significance, with real interest rates demonstrating a negative association with growth, despite the model's capacity to elucidate 74 percent of the variance in GDP.

Methodology

This investigation undertakes an exhaustive examination of the construct of financial intermediation and its overarching economic implications. It employs a dual methodological framework that integrates both advanced and desk review techniques to scrutinize the prevailing literature on the subject, incorporating a diverse range of both international and local sources. academic journal articles, textbooks, policy documents, and working papers constitutes sources of information.

Findings:

Role in Economic Growth: Financial intermediaries, which encompass institutions such as banks, microfinance entities, and non-banking financial organizations, assume an essential role in the allocation of resources towards productive economic endeavors. The research indicates that their adept mobilization and distribution of capital foster investment in crucial sectors, thereby propelling economic growth.

Contribution to Financial Inclusion: Financial intermediaries are pivotal in promoting financial inclusion by extending services to underserved populations and rural locales. However, challenges such as restricted credit availability for small and medium enterprises (SMEs) persist, limiting their comprehensive impact on financial inclusion.

Support for SMEs and Sustainable Development: The investigation underscores the substantial contributions of financial intermediaries in bolstering SMEs, which are foundational to Nigeria's economic framework. Nonetheless, these intermediaries face considerable obstacles in securing sufficient funding, which impedes their ability to effectively contribute to sustainable development. The research emphasizes the imperative for policy reforms and enhanced credit frameworks to empower SMEs.

Technological and Policy Advances: Developments in financial technology (FinTech) have significantly augmented the operational efficacy of financial intermediaries. These innovations have facilitated enhanced accessibility to services, diminished transaction costs, and refined credit evaluation mechanisms. Nevertheless, the deployment of these technologies exhibits variability, with certain geographic locales continuing to experience lag in their adoption.

Regulatory Challenges: The investigation emphasizes inadequacies within regulatory frameworks that obstruct the optimal performance of financial intermediaries in fostering economic stability. Obstacles such as policy disparities, regulatory barriers, and inadequate infrastructure compromise the effectiveness of these intermediaries in mitigating financial risks and promoting sustainable economic growth.

Financial Stability and Risk Management: Financial intermediaries are essential to the preservation of financial stability through the diversification of risk and the encouragement of capital formation. However, the research indicates that financial risks, including non-performing loans and economic volatility, remain at persistently high levels. The implementation of advanced risk management strategies and enhanced regulatory oversight is crucial to alleviate these concerns.

Conclusion

This analysis underscores the pivotal role of financial intermediaries in advancing the economic development of Nigeria, promoting financial inclusion, and safeguarding systemic stability. Through a rigorous examination of empirical data in conjunction with a comprehensive literature review, the study clarifies the mechanisms by which banks, microfinance institutions, and non-banking financial entities function as essential conduits for the mobilization and distribution of capital, thereby making significant contributions to the nation's advancement.

The findings reveal that these intermediaries have proficiently facilitated investments in vital economic sectors, thereby catalyzing growth. Nonetheless, despite these contributions, the integration of innovative methodologies is uneven, with particular sectors displaying a delay in the adoption of modern financial technologies. Furthermore, persistent challenges such as limited credit access for small and medium enterprises (SMEs) hinder the broader effectiveness of financial intermediaries in terms of financial inclusion.

In light of these findings, the study concludes that, while financial intermediaries are instrumental in promoting economic development, more targeted interventions are necessary to ensure the full realization of their potential. Policymakers and relevant stakeholders must prioritize the improvement of credit accessibility for SMEs, advocate for the embrace of contemporary financial technologies, and strengthen the regulatory framework to enhance the financial sector's contributions to Nigeria's economic transformation.

Recommendations

1. Enhancing Financial Inclusion through Targeted Policies: The government should formulate and implement targeted policies that facilitate greater access to financial services, particularly credit, for underserved populations, such as SMEs and rural communities. A focus on developing tailored financial products and enhancing financial literacy could help address the gaps in financial inclusion, fostering broader participation in the formal economy.

2. Promoting Technological Integration in Financial Intermediaries: There is a need for stronger investment in digital financial technologies across the financial intermediary landscape. Policymakers and regulators should work closely with financial institutions to streamline the integration of fintech solutions, particularly in sectors that have lagged behind in adopting these innovations. This could involve creating incentives for banks, microfinance institutions, and non-banking financial organizations to modernize their platforms, thus improving efficiency and expanding service delivery.

3. Strengthening SME Access to Finance through Risk Mitigation Strategies: Financial intermediaries should adopt more robust risk management frameworks to improve credit access for SMEs. This can be achieved by partnering with development finance institutions, offering credit guarantees, and reducing collateral requirements, while exploring alternative financing models like peer-to-peer lending and crowdfunding. Such approaches would enhance the intermediaries' ability to support economic growth by better addressing the financial challenges faced by SMEs.

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