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Financial Inclusion In Nigeria: Issues And Challenges



CENTRAL BANK OF NIGERIA

**U. Kama
M. Adigun**

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Financial Inclusion In Nigeria: Issues And Challenges

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Central Bank of Nigeria
33 Tafawa Balewa Way
Central Business District
P. M. B. 0187, Garki
Abuja, Nigeria

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LIST OF ACRONYMS

ATM	Automated Teller Machine
POS	Point of Sale
CGAP	Consultative Group to Assist the Poor
CFI	Centre for Financial Inclusion
MENA	Middle East and North Africa
ECA	Europa and Central Asia
LAC	Latin America and Caribbean
EAP	East Asia and Pacific
OECD	Organisation for Economic Cooperation and Development
AFI	Alliance for Financial Inclusion
PCC	Plymouth City Council
NERFUND	National Economic Reconstruction Fund
FEAP	Family Economic Advancement Programme
EFinA	Enhancing Financial Innovation and Access
N11	Next Eleven Emerging Economies/Countries
KYC	Know Your Customer

FINANCIAL INCLUSION IN NIGERIA: ISSUES AND CHALLENGES

Abstract

Financial Inclusion is a state where financial services are delivered by a range of providers, mostly the private sector, to reach everyone who could use them. Specifically, it means a financial system that serves as many people as possible in a country. In recent time, financial Inclusion has assumed a critical development policy priority in many countries, particularly in developing economies. This paper reviewed experiences of other jurisdictions in the achievement of financial inclusion. More importantly, the various country experiences showed that, though financial inclusion may have become a general phenomenon, its nature, form and challenges differ among jurisdictions and as such cannot be addressed by a single product or “one size fit all” approach. Nations should therefore implement initiatives that take into consideration the peculiarities of their environments and most critically its local people.

It further reviewed past and present efforts at promoting financial inclusion in Nigeria. Although gradual progress is being made to improve on financial inclusion, critical challenges of low financial literacy, inadequate infrastructural facilities as well as inadequate and inefficient technology-based facilities by financial institutions, has limited the achievement of significant expansion in financial inclusion level in Nigeria. This study recommends a systematic approach that aligns responsibility and institutions among all stakeholders in the financial inclusion process to guarantee sustainability.

Key Words: Financial Inclusion, Financial Services, Poverty and Economic Growth & Development.

JEL Classification: G20, G21, O16, O40, I30

1.0. INTRODUCTION

The principle of financial inclusion has assumed greater level of importance in recent times due to its perceived importance as a driver of economic growth. Giving access to the hundreds of millions of men and women (all over the world) who are presently excluded from financial services would provide the possibilities for the creation of a large depository of savings, investable funds, investment and therefore global wealth generation. In other words, access to financial services, that are well suited for low-income earners promote enormous capital accumulation, credit creation and investment boom. Usually the low-income earners constitute the largest proportion of the population and so control enormous chunk of the economy's idle fund albeit held in small amounts in the hands of each of the several million members of this group. Harnessing and accumulating these resources provides a huge source of cheap long-term investable capital.

Mehrotra et al (2009), emphasised that access to financial services allows the poor to save money outside the house safety, and helps in mitigating the risks that the poor faces as a result of economic shocks. Hence, providing access to financial services is increasingly becoming an area of concern for every policymaker for the obvious reason that it has far reaching economic and social implications. Financial inclusion has therefore become an explicit strategy for accelerated economic growth and is considered to be critical for achieving inclusive growth in a country. This realisation, in the recent past, was the major impetus for the adoption of policies and measures aimed at growing global financial inclusion as a means of promoting world economic prosperity.

Notwithstanding this global consensus, achieving pervasive financial inclusion has remained a global challenge with as much as 54.0 per cent of adults worldwide being financially excluded (without access to financial services). The situation is even worse in the developing economies where some countries have as much as 70.0 per cent financial exclusion levels. The 2010 financial survey by the Consultative Group to Assist the Poor

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(CGAP/World Bank), show that the figures in almost all economies in Sub-Saharan Africa were below this world average, while high-income countries were above it. Sub-Saharan Africa and South Asia are the regions with the lowest share of banked households. The report also indicated that the percentage of households having deposit accounts in a formal financial institution varies greatly across countries, ranging from below 1.0 per cent in the Democratic Republic of Congo and Afghanistan to about 100 per cent in Japan. This worrisome level of access to finance, especially in the developing countries poses a serious challenge not only to the different local economies, but also to the global economic growth at large and thus, necessitating the pragmatic efforts by policy makers to remove barriers like education, gender, age and irregular income so as to enhance access.

The objective of this paper is therefore to examine the efforts so far made in achieving financial inclusion in Nigeria, the challenges therein and the way forward. Following this introduction section II deals with the conceptual issues and relevance of financial inclusion. Section III reviews country experiences in financial inclusion, while Section IV gives an overview of financial inclusion in Nigeria. Issues and challenges of financial inclusion in the country are x-rayed in Section V, while Section VI contains the way forward and conclusion.

2.0. CONCEPTUAL ISSUES AND RELEVANCE OF FINANCIAL INCLUSION

2.1. Conceptual Issues

The increasing importance of financial inclusion as a catalyst for economic growth and development has been well documented in the literature. Financial inclusion is today widely considered as a right of all citizens to social inclusion, better quality of life and a tool for strengthening the economic capacity and capabilities of the poor in a nation (Banco Central do Brazil, 2010). Policymakers have thus, viewed financial inclusion as a basic access for all citizens, highlighting its non-excludability and also its non-rivalness. Considering that financial inclusion meets these two criteria, Mehrotra et al (2009), concluded that though, the degree of "publicness" in "financial inclusion" may be different from a typical public good like

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defence, but there should be no doubt that financial inclusion meets the two features of public good and thus, can be regarded as a “quasi-public good”.

Consequently, financial inclusion is defined as a process or situation which allows for ease of access to, or availability of and usage of formal financial systems by members of the economy. It describes a process where all members of the economy do not have difficulty in opening bank account; can afford to access credit; and can conveniently, easily and consistently use financial system products and facilities without difficulty. It is the process which ensures that a person's in-coming money is maximised, out-going is controlled and can exercise informed choices through access to basic financial services (PCC Financial Inclusion Strategy, 2009).

In that regard, financial exclusion is the inability of individual, household or group to access particularly the formal financial products and services. To Mohan (2006), financial exclusion signifies lack of access by certain segments of the society to appropriate low cost, fair and safe financial products and services from mainstream providers.

Though there may not have been a universal agreement over an exclusive list, it is widely agreed that financial inclusion is multidimensional, encompassing access to, use of and capability in relation to a range of financial services. Stephen Sinclair et al (2009) summarised that financial inclusion is a state in which all people have access to banking and insurance services as well as financial literacy and capabilities. It has also been defined as “the state of financial system where every member of society has access to appropriate financial products and services for effective and efficient management of their resources; get needed resources to finance their businesses; and financial leverage to take up opportunities that will lead to increase in their income” (Chima, 2011).

The Centre for Financial Inclusion provides a somewhat all-encompassing

definition. The Centre defines financial inclusion as “a state in which all who can use them have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients. It is a state where financial services are delivered by a range of providers, most of them private sector, and reach everyone who can use them, including the poor, disabled, rural, and other excluded populations” (Centre for Financial Inclusion, 2010).

In a cross-country policy research working paper on access to financial services and inclusion around the world in 2011, Ardic et al, (2011) noted that there is yet much to be done in the financial inclusion arena. The findings revealed that 56.0 per cent of adults in the world do not have access to formal financial services and that the situation is even worse in the developing world with 64.0 per cent of adults unbanked. A study conducted by Beck et al (2007) revealed that on a regional breakdown of predictions, Sub-Saharan Africa (SSA) and South Asia (SA) were the two regions with the lowest percentage of banked individuals, with medians of 12.0 and 22.0 per cent, respectively. Latin America and the Caribbean (LAC), East Asia and Pacific (EAP), and Middle East and North Africa (MENA) followed with medians of 40.0, 42.0 and 42.0 per cent, respectively. In the developing world, Europe and Central Asia (ECA) were the regions with the highest percentage of banked households on average, with a median of 50.0 per cent.

2.2. The Relevance of Financial Inclusion

The global financial inclusion average defined as the number of adults with access to financial services is less than 50.0 per cent. The problem is more acute in the developing and African countries in particular, such that achieving a higher financial inclusion level has become a global challenge (Ardic et al, 2011). The global target has been to remove all the barriers, including education, gender, age, irregular income, regulation and geographical locations that have together contributed to the dearth of access to financial services by billions of adults all over the world.

Sanusi, (2011) had attributed the rise in poverty level in Nigeria to the

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challenges of financial exclusion. According to him, achieving optimal level of financial inclusion in Nigeria means empowering 70.0 per cent of the population living below poverty level, and this would boost growth and development. Inclusion of this segment of the society would generate multiple economic activities, cause growth in national output and eventually reduce poverty.

Theoretically, greater access to deposit facilities enhances the ability of financial intermediaries to mobilise savings, while better access to finance facilitates economic growth by increasing the ability of households to undertake productive investments (Andrianaivo and Kpodar, 2011). Specifically, financial inclusion connects people to banks with the consequential benefits. Chong and Chan (2010), noted further that access to a well-functioning financial system, by creating equal opportunities, enables socially and economically excluded people to integrate into the economy and actively contribute to economic development. This ensures that the financial system plays its role of inclusive growth which is one of the major challenges of emerging and developing economies.

Mohan (2006) noted that, once access to financial services improves, inclusion affords several benefits to the consumer, regulator and the economy alike. The author noted that the establishment of an account relationship can pave the way for the customer to avail the benefits of a variety of financial products, which are not only standardised, but are also provided by institutions that are regulated and supervised by credible regulators that ensures safety of investment. In addition, bank accounts can also be used for multiple purposes, such as, making small value remittances at low cost and purchases on credit. In summary, access to a bank account does provide the account holder not only a safer means of keeping his/her fund but also provides access to use of other low cost and convenient means of transaction. For the regulator, the transparency in the flow of transactions makes monitoring and compliance easier, while for the economy, increased financial inclusion makes capital accumulation easier and more transparent. Mohan (2006) concluded therefore that "the

single gateway of a banking account can be used for several purposes and represents a beneficial situation for all the economic units in the country”.

The consequence of financial exclusion is to minimise the scale of economic activities that can be financed and hence, limiting the potentials for higher economic growth. Financial inclusion requires that attention is given to human and institutional issues, such as quality of access, affordability of products, provider sustainability, and outreach to the most excluded populations. Financial inclusion guarantees improved ability of poor people to save, borrow, and make payments throughout their lifetime.

Apart from the regular form of financial intermediation, financial inclusion takes care of:

- Basic no frills banking account for making and receiving payments;
- Savings products suited to the pattern of cash flows of a poor household;
- Money transfer facilities; and
- Insurance (life and non-life).

3.0. FINANCIAL INCLUSION IN SOME SELECTED JURISDICTIONS

Different countries have implemented varying policies to promote financial inclusion taking into consideration the peculiarities of the economy and local population characteristics. Some countries have promoted vigorously, alternative financial institutions such as micro finance institutions and Self Help Groups, among others, in order to ensure financial services reach the excluded, while others simplified existing products to overcome the difficulties in accessing such services.

3.1. Developed Economies

In the developed economies, specific legal and policy pronouncements have been made to encourage actions (particularly by banks) that ensure continuous broadening and sustained financial inclusion. The United Kingdom was one of the first countries to realize the importance of financial

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inclusion. It published its strategy of financial inclusion "Promoting Financial Inclusion" alongside the Pre-Budget Report of 2004. HM Treasury (2004), indicated that the government identified the need for financial literacy and basic understanding of financial concepts as a critical success factor in the efforts at ensuring increased financial inclusion. To achieve this, government worked with potential providers to develop proposals for delivering a significant increase in free face-to-face money advice, targeted in areas of high financial exclusion. Specifically, the government took active part in the process of midwifing models of money advice outreach aimed at reaching those who do not normally present themselves to debt advisers. Also, a Financial Inclusion Fund of £120 million was set up to help bring about expansion of access to financial services, while a Financial Inclusion Taskforce was formally launched in February 2005 to monitor progress on financial inclusion and make suitable recommendations. Working and consulting with stakeholders (including community development finance institutions, and home credit companies), the government implemented policies, including community investment tax relief scheme to deliberately promote the informal sector.

The German Bankers' Association introduced a voluntary Code in 1996 providing for an "everyman" banking transactions, (Srinivasan, 2009). This ensured that financial institutions made access to banking services easy and less cumbersome for the benefit of every member of the community.

In Sweden, Belgium and France legislations recognized the right to open account and so prevent banks from refusing to open account for intending customers (CGAP, World Bank, 2010).

Mohan (2006) had enumerated that in France, the "Law on Exclusion" of July 1998 reiterated the right to an account first set out in the 1984 law and has since then simplified the process of exercising the right, while in Belgium, the Banking Bill 2003, which had been implemented since October 2003, set out the minimum standards for basic bank accounts and specifies the minimum number of free face-to-face transactions.

Srinivasan (2009) added that the laws in Belgium and France not only commit banks to open minimum number of branches in rural areas but also stipulates the basic transaction types to be on offer as well as put ceilings on charges that can be applied.

In the US, the flagship legislation to promote financial inclusion required regulatory authorities to rate banks based on their efforts at serving rural-low income communities just like the Community Reinvestment Act (1997) requires banks to offer credit throughout their entire area of operation and prohibits them targeting only the rich neighborhoods (Srinivasan, 2009) Canada enacted "Access to Banking Services Regulation in 2003" requiring all banks/financial institutions to provide/open personal accounts without minimum opening balances irrespective of the employment or credit history and with minimum requirements. There was also a financial consumer agency established to monitor whether financial institutions adhere to their public commitments. The Canadian Bankers Association and the Canadian Foundation for Economic Education (CFEE) were involved in promoting financial education, extending beyond credit counseling to awareness about macroeconomic environment (Mehrotra et al, 2009).

In summary, the strategy and policy responses by central banks and monetary authorities in most developed economies have therefore been a combination of codes of practice and specific legislations.

3.2. Emerging Economies: OECD, India, Malaysia and Brazil

Effective access to financial services has assumed the status of fundamental human rights in most of the emerging market economies as it is considered as one of the main driving forces of economic equality in this contemporary age. While the high income OECD countries have as low as 8.0 per cent, the exclusion rate ranges from 49.0 per cent in Central Asia and Eastern Europe to 58.0 per cent in South Asia and 65.0 per cent in Latin America. Attempts to grow financial inclusion have been largely focused

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on either support for microfinance network (subsidy, co-financing, technical assistance etc.) or provision of environment and regulation that promotes access to financial services (CGAP, World Bank, 2010).

With only 35.0 per cent of the population of India in formal banking and 40.0 per cent of the banked rarely using the account less than once in a month, the gross inadequacy of financial services availability, especially for the poor and rural dwellers became very evident attracting the attention of the government. To pursue a paradigm shift, the authorities set out to tackle the identified causes of financial exclusion, including inefficient regional and uneven distribution of bank services and branches, overcoming banker's aversion to financial inclusion, poverty levels, among others. Facilities such as "no frill" accounts and "General Credit Cards" for low deposits and credits were introduced by the Reserve Bank of India as part of the several measures initiated to achieve greater financial inclusion (Srinivasan, 2009). A post-implementation review helped India to develop a comprehensive multi-step road map (improved telecommunication and information technology, financial counselling, change and digitalisation of account opening documentation, education - curriculum update, capacity building) to deal with initial bottlenecks and challenges on the way to increasing financial inclusion level (Vighneswara and Vijayalakshmi, 2009). The road map fostered availability and affordability of appropriate financial services to the financially excluded majority of the economy, allowing the Indian economy assume the enormous benefits therein.

In Malaysia, having realised the importance of financial inclusion as a vehicle of economic growth and development, government, through the Malaysia central bank, took several steps in 2009 to address the challenges of financial exclusion. Zeti (2010) noted that, the commitment of the government was reflected in the enactment of the new Malaysia Central Bank Act 2009, which included financial inclusion as an objective of the Bank. The legislation ensured that subsequent/future policy makers would continue to focus on building an inclusive financial system, (Bank Negara 2010). Specifically, the central bank created legal and business

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environment which allowed a range of financial service providers to thrive and compete. The Bank also issued guidelines on the specific basic banking products that must be on offer at reasonable cost while prescribing and ensuring that diverse delivery channels, in terms of physical branches, ATMs and Kiosks, among others, are provided, for wider and easier reach to the greater population. In addition to providing a consumer protection and enlightenment framework which enhanced financial literacy, the Bank also established training centres for building professional capacity as well as providing institutional and infrastructural support such as credit bureau to facilitate the operations of the financial institutions in granting of credit. Alliance for Financial Inclusion (2010) noted that Bank Negara conducts outreach activities on rights and responsibilities of customers, targeting women, students, rural communities and pensioners who may be most vulnerable.

In Brazil, the first step to promoting financial inclusion dates back to 1990 when the Brazilian Central Bank started working with the public and private agents to articulate knowledge and actions on how to raise the financial inclusion level in the economy (Banco Central do Brazil, 2010). By 2010, the Bank adopted the promotion of financial inclusion as one of its strategic objectives and ensures the soundness and efficiency of the National Financial System (AFI, 2011). The approach initially focused on improving the regulatory framework for achieving financial inclusion, including some normative changes such as correspondents and simplified accounts, the establishment of credit unions and micro entrepreneur credit companies (SCM) which were later transformed into micro entrepreneur and small business credit companies (SCMEPP). Banking correspondents were allowed to provide all financial services, with the formally licensed banks taking full responsibility for the conduct of the correspondents linked to them, (Mehrotra et al, 2009). Eventually, the process of financial inclusion was articulated more around the broad objective of right of all citizens to social inclusion and a better quality of life as well as a tool for strengthening the economy. Banco Central do Brazil (2010) noted that one of the most important aspects of financial inclusion in Brazil was the use of services and

tools that were developed in response to National Monetary Council Regulation by beneficiaries of federal government income transfer Programmes like the “Bolsa Família” (PBF). The “Bolsa Família” program, or PBF, is responsible for transferring funds amounting to R\$1.2 billion to approximately 13 million households each month.

3.3. Middle East and North Africa

A World Bank sponsored study by Pearce (2011) reviewed progress of financial inclusion policy in the Middle East and North Africa (MENA) region. He found that in most of the MENA nations, deficiencies in financial infrastructures and regulatory framework had made expansion of access to finance costly and risky for banks. Ardic (2011) found that the proportion of banked household stood at 42 per cent of the entire household in the MENA region. While the number of loans and deposits per head may be relatively low, (below the average in sub-Saharan Africa), the average size of loans and deposits relative to GDP remain high, suggesting high propensity to save in the region (Andrianaivo and Kpodar 2010). Even though having greater financial depth (measured in term of private deposit as a proportion of GDP) than other regions, only 21.3 per cent of adults in MENA were having a loan account and only about 20 per cent had access to deposit accounts. MENA lagged behind other regions on the indicators for bank deposit and loan accounts per population. To address this, Pearce (2011) found that financial inclusion become a policy focus of several MENA countries and eventually became a priority alongside stability for many MENA countries' regulators and ministry of finance. MENA countries have so far adopted a roadmap towards fostering increased financial inclusion. Some of the steps adopted include release of charters and codes of practice, adoption of shared public and private sectors goals, use of government payments as stimulus for financial inclusion, improved data availability for financial inclusion, increased variety of financial services through increased number of branches as well as implementation of branchless banking and aggressive use of direct sales agents.

3.4. Africa Experiences

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Andrianaivo and Kpodar (2011) found evidence that, in Africa, large share of the population are financially excluded and therefore resort to the use of informal financial services. They also found a relatively high propensity to save, but financial expansion and deepening was constrained by lack of access to financial services and absence of depth of financial instruments. The problem is apparently accentuated by insufficient financial infrastructures; coupled with the fact that the number of ATMs and bank branches are low in this region. Evidences from the study not only revealed that the interaction between mobile phone penetration and financial inclusion is positive and significant in the growth regression, but also that people in Africa consider investment in mobile technology as a necessity as it constitutes a large portion of their earnings (Andrianaivo and Kpodar 2011). It therefore means that mobile financial service platform could be the answer to bridge the gap in financial infrastructure.

The M-PESA (M for "mobile" and PESA, Swahili word for "cash money") otherwise "mobile cash money" mobile money service in Kenya stands out as a model (for other African nations) of how consumer access to financial services can be revolutionised through technology. The service provides the average Kenyan without a bank account the opportunity among others to transfer cash; purchase airtime credit; pay bills; and purchase goods and services without the use of cash by simply transferring value from one individual to another through float balance on the phone. With over 14.0 per cent of the Kenyan population depending on money transfer from the employed, and between only 16 and 21 per cent of rural Kenyans banked prior to 2007, the introduction of M-PESA provided a cheaper, safer, more efficient means of transferring money to their dependants in the remote villages (Ngugi and Pelowski 2010). Even the business population with traditional banking accounts adopted the channel to pay wages, bills, salaries and pay for services provided in the remote part of the country. The populace were able to overcome the challenges of illiteracy, documentation bureaucracy, minimum balance requirement, and limited traditional banking distribution channels all of which limited the ability of the majority to open the conventional banking account amidst widespread

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distrust in Kenyan banks. The presence of these challenges across Africa presupposes the presence of condition for successful deployment of mobile money service to improve financial inclusion conditions across the region. However, aside the general conditions, certain factors which are peculiar to Kenya stand out as critical to the success of M-PESA. As noted by (Ngugi and Pelowski 2010), apart from capitalising on the wide usage of mobile phones in Kenya which provided a social ubiquity in usage of phones and ready potential market for mobile money service, the creation of the right government regulatory environment promoted the success of the service. The liberalization of the telecom sector in 1998, and prompt granting of M-PESA money transfer service license show clearly that while too much regulation stifles innovation, absence of or too little regulation could also endanger the nation's financial system. In other words, the government of Kenya walked a tight rope in creating the right environment for innovation while at the same time ensuring the stability of the financial system (Mwangi & Njuguna, 2009). Also critical to the success of the programme is the community ownership of the technology itself and programme as the use of community based agents engender trust albeit lost with the banks.

The "Mzansi"- a low cost bank account was launched in South Africa for the financially excluded people in 2004 by the South African Banking Association. Concentrating on shops located around mines and other underprivileged areas, TERA Bank in South Africa uses wireless connections at grocery shops and provided debit cards for members to access banking service (Mehrotra 2009). As noted above the Mzansi Account is a low income transactional banking account that was developed in line with the commitments of South Africa's Financial Sector Charter in line with the Financial Sector Charter requirement for banks to make banking more accessible to the nation and, specifically, to increase banking reach to all communities. Since the "Mzansi" Account was the result of the major South African banks working collectively, the collaboration allowed "Mzansi" account holders to make use of any of the participating banks' ATMs at no additional cost – effectively creating a network of over ten thousand ATMs

across the country and extending the banking platform to the greater community.

The protracted economic challenge of African countries has been explained in some studies as a consequence of the low level of financial services in Africa, despite efforts by countries to reform and develop financial services sectors in the continent. Largade (2011) posited that innovative solutions to foster financial sector development could spur the much needed growth, particularly in Africa.

4.0. OVERVIEW OF FINANCIAL INCLUSION IN NIGERIA

Financial exclusion has manifested prominently in Nigeria with the bulk of the money in the economy staying outside the banking system. The issue of financial exclusion has therefore been a major economic challenge that has received the attention of the various governments over the past four decades.

Prior to the recent efforts to promote financial inclusion, the Nigerian economy was largely a cash-based economy with significant proportion of the narrow money stock in the form of currency outside the banking system. Although the average ratio of the currency outside the banking sector (COBs) to narrow money supply (M_1) trended downward from 61.1 per cent in the 1960s to 44.3 per cent in the 1970s and later to 40.9 per cent in the 1980s, the value, in nominal terms, was still high considering the growth in the level of narrow money in the economy. The decline in the ratio was attributable to a combination of developments, including increased literacy and government policies directed at encouraging financial sector growth. The CBN, during this period, initiated rural banking programme directing banks to open branches in the rural areas, encouraging Nigerians to use financial institutions and products more.

The crisis in the banking industry during the 1990s eroded the confidence of the populace in the industry. The problem was aggravated by the excessive spending of the political class leading to the increase in the level of

currency outside the banking system. The ratio of currency outside the banking system moved up to 47.7 per cent by end of the 1990s. To forestall the damaging effect of the banking industry distress in the 1990s, government implemented various policies which not only involved economic reforms to improve the general wellbeing of the populace in terms of employment and income earning capacity but also included measures (particularly the bank consolidation programme of 2004) that increased deepening of the financial sector. The stimulated use of the financial services pushed down the ratio of currency outside the banking system to 38.2 per cent by the end of 2005.

In a cross-country comparative analysis of the financial exclusion rate using the same measure of the ratio of the currency outside the banking system to narrow money supply, Martin Oluba (2008), compared the financial exclusion levels in Switzerland, USA, Venezuela, Nigeria , Pakistan, India and Argentina in four and half decades (1960 – 2005). He found that Nigeria had not really done badly in comparative terms even though there was need to accelerate the exclusion rate reduction.

4.1. Past efforts at Financial Inclusion in Nigeria

Over the years, the government and monetary authorities have introduced varying policies aimed at deepening financial inclusion within the economy. The policies ranged from various institutional involvements such as the establishment of community and microfinance banks to specific policies and programmes designed to facilitate access of the financially excluded to formal financial services. The private banks, on the other hand, have also been engaged in innovations and activities aimed at getting more people involved in the financial inclusion process, though their level of involvement have always been moderated to the extent that profitability is enhanced.

One of the first major policies of the government aimed at promoting financial inclusion was the adoption of the rural banking programme in the late 1970s. The Scheme was introduced by the Central Bank in 1977 with the

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goal of achieving one bank branch in each of Nigeria's local government areas. The commercial banks were provided with targets to establish over rural branches under the scheme. Government hoped that the rural banking scheme would help achieve the transformation through the following:

- Provide a platform for the mobilisation of savings in the rural areas through the diffused network of branches in all parts of the society;
- Encourage banking habits among the largely agrarian rural population;
- Provide credit for the growth of the small scale industries and entrepreneurs; and
- Promote balanced development and eventual reduction in the rural-urban migration (Okorie, A 1990),

The scheme was implemented in two phases from 1977-1983 (see table xx). Under the first phase of the programme (1977-1980), of the 200 (two hundred) target number of rural branches, the banks has opened five (5) at end-December 1977. The number of rural branches opened under phase one increased to 188 at end-June1980 and stood at 194 by end-December 1980. A total of N116.4 million was outstanding as deposits at end-June1980, while total loan and advances of the rural branches amounted to N22.4 million.

Table1: Rural Banking Programme 1977-1983		
	First Phase (1977-1980)	Second Phase (1980-1983)
Number of Banks	20	20
Allocation	200	266
Achieved at end-June 1980	188	-
Achieved at end-December 1980	194	-
Achieved at end-December 1981	199	38
Achieved at end-December 1982	200	121
Achieved at end-December 1983	200	181

Source: CBN Annual Reports and Statement of Account 1981 -1983
 the banks were required to open 266 (two hundred and sixty six) rural

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branches under the second phase between 1980 and 1983. The number of branches opened under phase two which stood at 121 at end-June 1981 increased to 181 at end-December 1983. Overall the number achieved in the second phase represented only 68.0 per cent compared with 94.0 per cent achieved during the first phase. The poor performance in the second phase was attributed to the shortage of infrastructural facilities and the fact that the banks were constrained by inadequate financial and human resources.

Immediate effect of this initiative was the fact that more members of the rural populace had increased access to the use of banks particularly for savings and money transfer facilities. Another observed effect of all these initial policies on level of financial inclusion was reflected in the decline in the ratio of Cash Outside Bank to the Stock of Narrow Money Supply in the economy from 61.1 per cent in 1969, to 44.3 per cent in 1979 to 40.9 per cent in 1989 (Martin Oluba N., 2008). These initial gains were, however, diluted by the widespread incidence of bank distress, increased inflation and political uncertainty of the 1990s.

Other initial policies to promote the spread of financial services included the introduction of guidelines which prescribed minimum levels of lending to small scale enterprises and loans extended in rural areas. Banks which failed to meet up with these limits were not only subjected to fines and penalties but were also made to transfer whatever was the shortfall amount to either the Central Bank of Nigeria or the development finance institutions.

Furthermore, to promote increased savings culture and grow banking habit, government founded the People's Bank and facilitated the establishment of community banks. Both banks were institutions targeted at the low income/rural dwellers. The People's Bank was established in October 1989 to serve the poor in the society through acceptance of small deposits and provision of micro credit to the low-income members of the economy. The bank was funded from grants and loans from the Federal Government, funds from the Central Bank of Nigeria and low-interest-bearing loans from

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philanthropic organisation. The banks targeted the provision of the credit needs of small borrowers who were unable to meet the stringent requirements normally demanded by conventional banks.

Table 2 : Summary of Activities of People's Bank of Nigeria 1989-1994						
	1989	1990	1991	1992	1993	1994
Branches	26	169	N/A	228	271	275
Loans & Advances	5.69	74.0	N/A	78.0	167.3	178.2
Number of Borrowers	8,007	79,061	N/A	N/A	N/A	N/A
Government Subvention	30.0	232.1	N/A	451.7	489.2	207.1
Savings/Deposits	N/A	9.8	N/A	181.5	287.8	275.4
Total Assets	N/A	N/A	N/A	600.6	842.1	928.3
Average Loan/Deposit	N/A	N/A	N/A	43.0	58.1	56.8

Source: CBN Annual Reports

The bank was able to expand its activities rapidly during the first few years of its existence reaching into the nooks and crannies of the country. The total number of branches grew from 169 in 1990 to 228 in 1992 and reached 275 by the end of 1994, (CBN Statistical Bulletin, 2003). The number of borrowers increased significantly from just 8,007 in 1989 to 79,061 in 1990 but for non-availability of data, the increasing trend as also witnessed in the value of loans and advances could not be highlighted in the later years. However this increase gives an indication of the potential number of the populace incorporated into the financial system through the programme as also indicated in the increased number branches and the appreciable growth in the amount of deposit/savings. However, its activities were bogged down by bureaucracy of government preventing it from extending its impact beyond the early years before its fold-up.

In addition, community banks (CBs) were licensed in the 1990s to serve similar purpose. The CBs were conceived as self-sustaining, community-owned financial institutions. Amongst the various incentives provided by the government to encourage establishment of the CBs was the provision of 100 per cent matching grant for a community raising the minimum capital. The banks were encouraged and made to serve mostly local residents with simple and non-sophisticated services. The first set of community banks

were established at the end of 1990, and by 1999, the total of reporting community banks stood at 550 with total assets base of N8.9 billion. The total deposit also reached over N5.7 billion with loans and advances of about N2.9 billion (CBN Statistical Bulletin, 2003).

Some of the other specific institutional initiatives to promote funding and growth of small and medium-scale enterprises (SMEs) and small business included the National Economic Reconstruction Fund (NERFUND) and Family Economic Advancement Programme (FEAP). NERFUND was created in 1988 to provide local and foreign funds for small and medium scale businesses, while the FEAP was established principally to assist rural women who were considered not to be having access to finance to grow their businesses. Additional support was also provided by foreign governments in the form of granting of trade credits. Between 1988 and 1994 the Fund had disbursed a total of over N300 million and USD\$80 million for the financing of various projects in the country.

4.2 Recent Financial Sector Reforms and Financial Inclusion in Nigeria

Since 2005, the Nigerian financial services sector has witnessed increasing activities by both the government and the regulatory authorities aimed at deliberately promoting policies that are intended to grow financial inclusion. The CBN has been at the fore front of encouraging and supporting products that are specifically targeted at the low income and financially excluded, while the government have focused more on both interventionist financing arrangements and building institutions and frameworks that promotes financial inclusion.

4.2.1. Financial System Strategy 2020 (FSS2020).

One of the critical initiatives in this direction was the incorporation of financial inclusion as one of the cardinal objectives of the Nigerian Financial System System 2020 (FSS 2020). The FSS 2020 represents a holistic and strategic road map and framework for developing the Nigerian financial sector into a growth catalyst that will enable Nigeria be one of the

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20 largest economies by 2020. The Financial System Strategy (FSS2020) identified six stakeholders within the financial sector. These were the providers of financial services, which are regarded as the suppliers in the value-chain of financial inclusion. The group included the banking institutions, non-bank financial institutions, insurance companies, capital market players, pension institutions, and technology providers together with their regulatory bodies, all important to the process of financial inclusion.

Of the six initiatives adopted to strengthen the domestic financial market, four directly address financial inclusion. These initiatives include:

- Development of varied financial products;
- Enhancement of payment processes;
- Development of credit system; and
- Encouragement of a savings culture

The strategy highlighted the objectives of financial inclusion as the state in which adults (persons above the age of 18) have formal easy access to a broad range of financial products, which are appropriate, provided at affordable cost and with dignity for the clients.

To provide easy access means to reach and be reached by the unbanked at any time and also to operate in such a way that any desiring customer can easily access the institution and the services therein.

The step was to ensure that the procedures for accessing the services of financial institutions services were simple and seamless.

4.2.2. Microfinance Policy

All over the world, the micro finance model which involves majorly the provision of financial services to the poor and low-income earners has been identified as a potent instrument for promoting financial inclusion as well as poverty alleviation. The government, in 2005 launched the National Microfinance Policy which provided the supervisory and regulatory framework that will not only facilitate the growth of privately-owned microfinance institutions but also permits and facilitate the participation of mostly the third sector institutions, including market associations, cooperatives, non-governmental organisations, self-help groups, in the

microfinance model. These institutions together remain the major vehicle for the inclusion of the large and many users of the informal sector where the bulk of the unbanked exist. By the end-December 2011, following the increased confidence and activities of the microfinance banks, the assets and liabilities of the MFBs had reached N190.7 billion from just N55.1 billion in 2006. The loans and advances given by MFBs also increased from a mere N16.0 billion in 2006 to over N67.6 billion at end-December 2011. A review of the loan portfolio structure showed that short-term loans, at end-December 2011, accounted for 89.7 per cent of the total. This performance is an indication of the enormous influence the microfinance institutions can have in the process of growing the financial inclusion level of the country. The CBN/Government recently revised the microfinance policy to strengthen the institutions and reposition them for enhanced service delivery creating a more responsive sub-sector.

4.2.3. Non-interest Banking

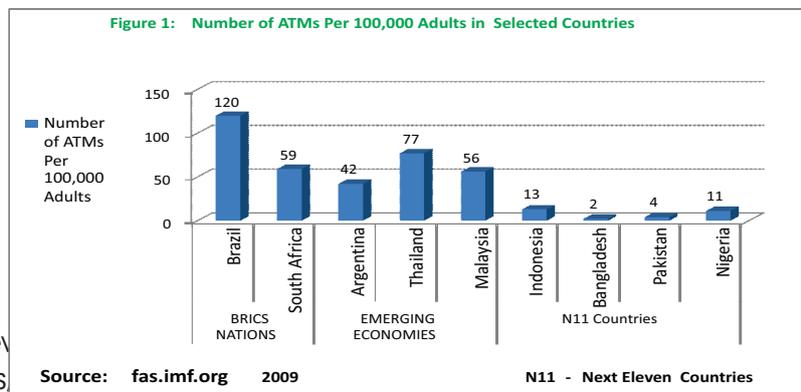
The Central Bank of Nigeria CBN introduced a new framework for Non-Interest Financial Institutions (NIFIs) in June 2011 and had granted two preliminary licences as at end-December 2011. The CBN hoped that Islamic bank products would help bring into the banking sector a large number of the country's population that had hitherto steered away from the organised conventional financial services, due to their aversion to interest and interest-based products. Introduction of non-Interest financial services which necessitates the addition of another component into corporate governance is expected to enhance oversight and regulation. It would also help to attract foreign direct investment (FDI), especially from the Middle East and South East Asia where a lot of investors have funds waiting to be invested in Shari'ah-compliant financial products as evidenced by the exponential growth in international Sukuk with implications for stimulation of growth in the real sector in the country. It was also projected that this specialised form of banking would further deepen Nigeria's financial market.

4.2.4. E-banking Products, Electronic Payment System and Cashless Policy

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The Central Bank of Nigeria has in the recent times stepped-up the campaign for banks to invest heavily in other low-cost branchless channels such as ATMs, point-of sale (POS) etc. The number of ATMs deployed by end of 2011 stood at 9,640, giving an average of 11 ATMs per 100,000 adults, compared with an average of 59 ATMs per 100,000 adults in South Africa, 13 ATMs per 100,000 adults in Indonesia, 42 ATMs per 100,000 adults in Argentina, 120 ATMs per 100,000 adults in Brazil and 56 ATMs per 100,000 adults in Malaysia. Nigeria, however, ranked higher than such other countries as Bangladesh with just 2 ATMs per 100,000 adults and Pakistan 4 ATMs per 100,000 adults (figure 1).

Adopted to accelerate the use of modern electronic payments channels, the cashless policy was implemented in pursuit of three major objectives. These objectives include: to develop and modernise the payment system; reduce banking cost to drive financial inclusion; and improve effectiveness of monetary policy. In other words, the policy was expected to drive financial inclusion based on the implicit assumption that reduced banking cost and more efficient payment system will encourage more people and business to embrace the formal financial service platforms. A review of the level of progress made so far on the CBN cash-less project in Lagos indicate that the number of deployed and active Point of Sale (POS) grew from 5,300 in June 2010 to 18,874 as at March 4, 2011. While this number has increased to around 100,000 between the end of 2011 and first half of 2012, the numbers of deployed POS that are actively used have not grown same way.

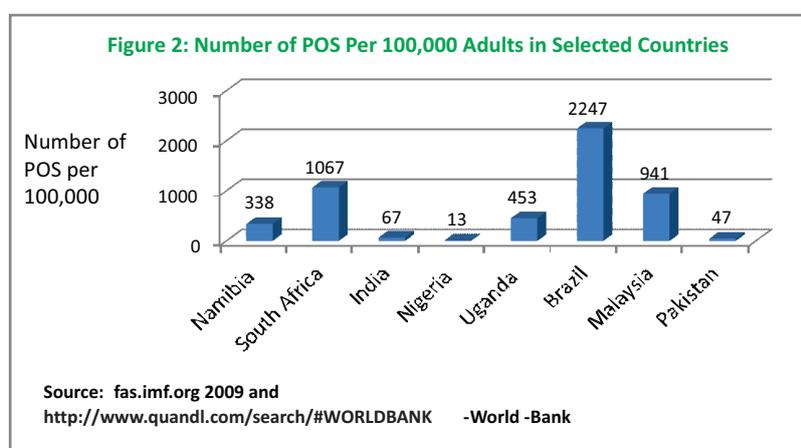


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100,000 in India, 1,063 per 100,000 in South Africa, 453 per 100,000 in Uganda, and 2,247 terminal per 100,000 adults in Brazil, there is still much to be done in this area (figure 2). An aggressive push for increased deployment and activation of more ATMs and POS will increase ease of access and hence financial inclusion in the country.



EFInA that for cashless policy to have the desired indirect effect on financial inclusion, authorities must focus away from just increasing number of available channel units (ATM, POS etc.) and more towards addressing demand side issues. Increasing attention should be focused on merchant's commitment to connecting and using POS and building consumer interest and confidence to increase demand for electronic payment options. According to Roland Berger strategy report (2011), 77.0 per cent of Nigerians save for emergency purposes and so any infrastructure that support ability to withdraw funds quickly and easily will serve the populace well. The report also noted that cash availability was important and as such insufficient funds situation at ATMs and POS must be avoided so as to build trust of the populace in the channels.

To promote the Mobile money mode of payment, the Central Bank of Nigeria, in august 2011, granted licences to 14 mobile payment providers. By end of January 2012, the 14 mobile payment operators were reported to have recorded 35,971 transactions worth N228 million. With over 80 million Nigerians known to carry a mobile phone, compared with the between 25 - 30 million banked Nigerians, patronage of this medium of payment has the

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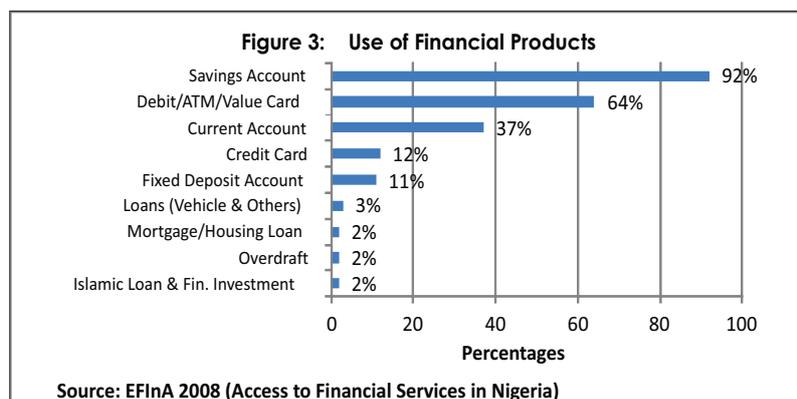
potential to grow at geometric progression with a potential transaction value of N6.5 billion daily and N1.17 trillion in 6 months (CBN National Financial Inclusion Strategy, 2012). As concluded at the “Unbanked Africa Summit” held in Lagos in 2011, mobile banking through cell phones remains a feasible tool to provide basic financial services to millions of the unbanked in urban and rural communities in Africa.

In an attempt to improve efficiency, build confidence in the process and attract more users, the Central Bank of Nigeria recently embarked on a redefining process of the nation's payments system. Some of the specific policies include: the introduction of a national switch platform to capture all electronic payments within the economy; the automated cheque payment system designed to engender trust and confidence in the user; and the introduction of the Nigeria Uniform Bank Account Number (NUBAN). All these policies led to increased activity in the nation's payments system, reduction in money outside the banking system and enhanced financial inclusion. By end-February 2012, the value of all electronic transfers had reached an average daily amount of N70.2 billion from a total of over 140,000 transactions. These transactions included: value of instant payment transactions, daily non-cash transactions via the Nigeria Interbank Settlement System (NIBBS) and value of cheques processed daily by the NIBBS (CBN National Financial Inclusion Strategy, 2012).

To improve confidence in the cheque system and other financial instruments, government also strengthened and implemented the law against the issuance of dud cheque in addition to other laws designed to enhance the integrity of the market. The increased confidence will encourage illiterates who hitherto were averse to the use of the banking system and its instruments.

Other policies by the CBN targeted at achieving financial inclusion in the country included: the promotion of financial literacy campaign, streamlining of transaction charges, among others. To address the challenge for affordability, transparency and dignity of the customers, the Central Bank of Nigeria embarked on a comprehensive review of bank charges in 2012, with a view of coming out with a revised customer friendly and efficient charge regime for the banks.

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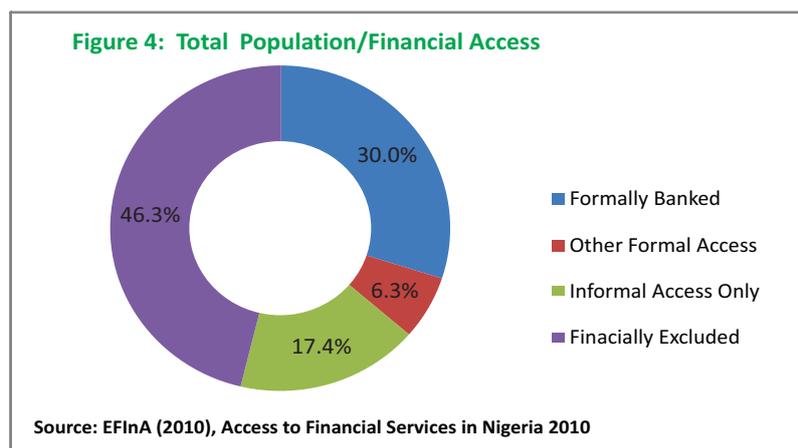


Realised enhancement of financial literacy as one of its targets to implementing the revived Universal Basic Education (UBE). It was expected that increased enrolment in schools will cause increase in the number of literate Nigerians which would eventually increase awareness about financial institutions and their services. It was also expected that improving individual's income earning capacity would make it easier for the populace to patronize the financial institutions and their services. In a related development, the establishment of a Consumer Protection Department in the CBN was another bold step taken by the apex monetary authority to promote consumer education and empowerment.

4.3. Recent Developments in Financial Inclusion in Nigeria

A survey conducted by the Enhancing Financial Innovation and Access (EFInA) in 2010 indicated that only 30.7 million out of the 85 million Nigerians above the age of eighteen have access to formal financial services (services from deposit money banks and other formal institutions), leaving out over 54 million either served by the informal institutions or totally unbanked. The formally banked (25.4 million) use the products and services of the deposit money banks either as salaried workers or as business men and women, while the remainder (5.3 million) of the formally serviced use the services of other formal institutions like the finance houses, microfinance banks etc. Nigeria has a higher proportion of financially excluded adults at 46.3 per cent, compared with 26.0 per cent in South Africa, 33.0 per cent in Botswana and 32.7 per cent in Kenya (EFInA, 2010).

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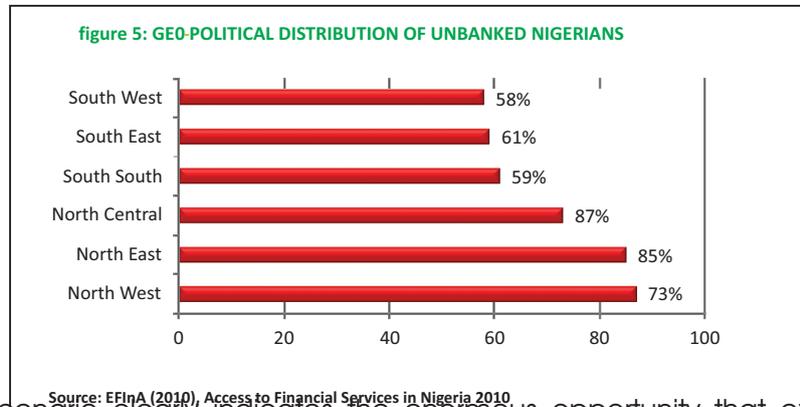
There are significant differences in financial services between the formal and informal financial system. Most market women for example, operating the typical savings account with the deposit money banks most times also operate the traditional contributory/savings scheme with the “Esusu” provider. Out of the 25.4 million formally served, over 1 million use both the deposit money banks and other formal institutions, while about 7 million use other informal institutions and services in addition to the conventional banking services (figure 4).

The rate of exclusion is worse in certain regions of the economy and in the rural areas when compared with the urban areas (figure 5). Rural Nigeria is disproportionately more excluded from financial services, compared with the urban Nigeria. Similarly, while the North has the highest percentage of the unbanked population, it also has the lowest number of bank branches with as low as between 0.99 to 1 branch per 100,000 customers, compared with as high as over 5 branches per 100,000 in some parts of the south (EFInA, 2010).

The report also indicated a large disparity in access to finance among gender. The EFInA 2010 financial access survey report has more male Nigerian adults who are banked, while more females are financially excluded. Although women are often the main provider (especially in similar developing economies) for the family, the discrimination and

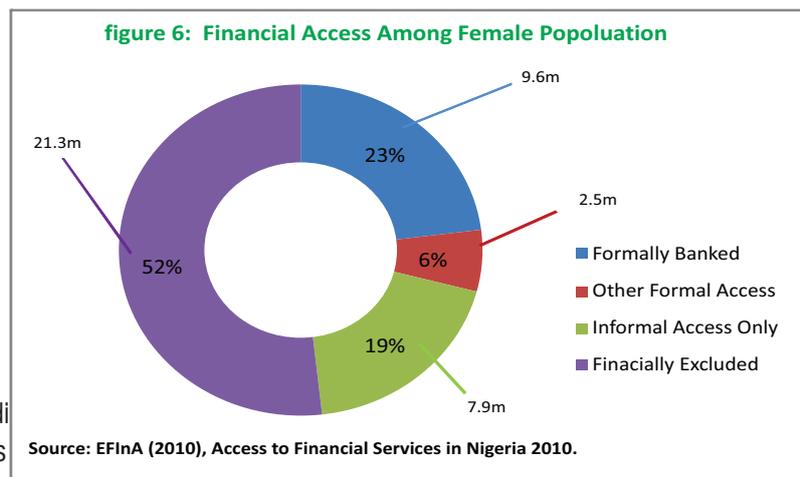
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cultural norms which prevents them from having access to finance causes their inability to provide for themselves and their families. In Nigeria, this phenomenon is well pronounced between the male and female population where about 52.0 per cent of the female adult are financially excluded, in contrast to the 41.0 per cent of the male adult being financially excluded.



Source: EFINA (2010), Access to Financial Services in Nigeria 2010

This scenario clearly indicates the enormous opportunity that exists for growth through the provision of financial products and services that easily and seamlessly meets the needs of the majority of the women.



Source: EFINA (2010), Access to Financial Services in Nigeria 2010.

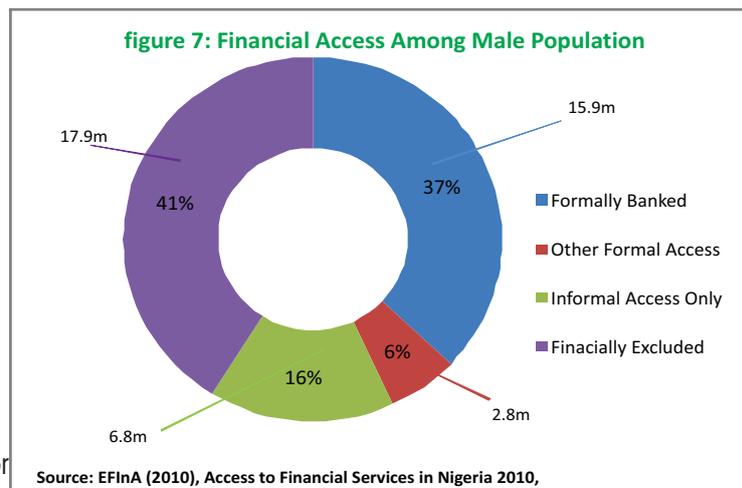
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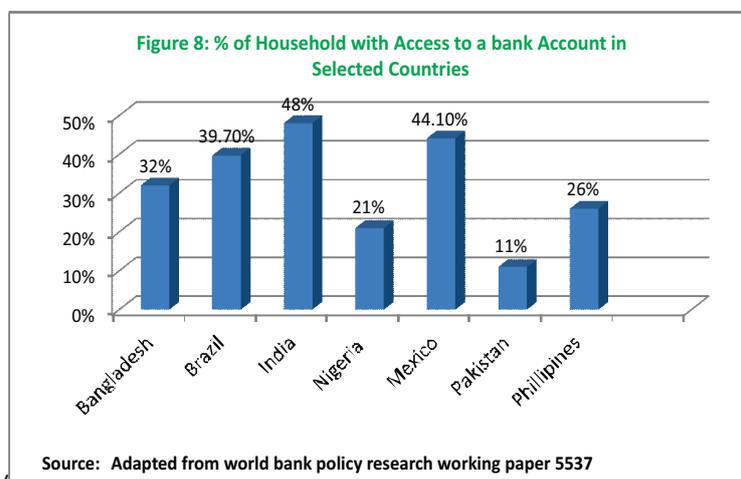
their families, produce goods to sell, pay for their children to go to school and enable the next generation to have a better future. Indeed, the last quarter of the decade ending 2010 witnessed increase in the annual growth rate of banking customers with an average growth rate of 24.0 per cent.

The number of bank branches, on the other hand, grew moderately at a rate of 9.0 per cent thus, widening the deficit of the number of branches per 100,000 customers – one of the global standards of financial inclusion measurement. By the end of 2010, the total number of branches of all commercial banks and microfinance banks added up to just about 22,700.



In a World financial services and the financial inclusion agenda around the world, comparative data obtained by (Ardic et al 2011), showed how well Nigeria fared among selected nations with respect to the percentage of household with access to a bank account. Amongst selected Next-11 (N-11) nations, Nigeria, with 21.0 per cent, fared better than only Pakistan, compared with the higher percentage of 39.7 and 48.0 per cent for the BRICS member nations of Brazil and India (figure 8).

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A survey conducted by the Enhancing Financial Inclusion and Access (EFInA) in 2011 indicated that the average number of customers served per branch of Nigeria bank has remained at a mere 4,600, in contrast to 10,800 in Tanzania. Going forward, with the deployment of new infrastructure by the banks in the country, Nigeria banks are projected to have the capacity to serve additional 36.4 million more customers.

With the increased attention and activity by both the monetary authorities and the general government, appreciable progress has been made in the efforts at improving the financial inclusion rate in Nigeria. The various efforts had shown clearly that large number of persons, especially the people living outside the urban areas (rural and semi-urban areas) do not have access to formal financial services but resort to the costly and insufficient informal sources. On the other hand, the formal sector has not been expanding rapidly enough to meet up with the volume, location and offerings that take care of the masses. The FSS 2020 document has it that the unbanked belong to the low and middle income groups earning between USD500 and USD5,000 and that from 2000 to 2009, the share of households in this group increased from 68.2 per cent to 80.7 per cent. This portion of the society, according to experts, is a group that cannot be ignored as enormous amount of resources can be mobilised from the group and channelled to productive activities in the economy.

From the foregoing, it is clear that while the depth and robustness of the financial sector determine the extent to which majority of the populace will

be financially included or excluded, the economic condition of the populace represented by their income earning capacity is a critical factor that determines an economic agent's eligibility to be financially included. In other words the fortune of the populace as determined by their general income and prosperity level remains a critical determinant of the eligibility and ability of any agent to be financially included or excluded.

5.0. ISSUES AND CHALLENGES

Anecdotal evidence has shown that only 46 per cent of the world adults as having access to financial services. Improving the global average level of financial inclusion has, therefore, become a global challenge. According to (Moghalu, 2011), the dearth of access to financial services by billions of adults all over the world poses serious challenges to global economic growth and development.

The challenge of inadequate financial inclusion is not just for the developing economies alone, from the emerging to high-income countries, government conceive and implement policies that seek to ensure majority of the population become financially included. "Beyond the non-robustness and inefficiencies of the financial system which contributes to the act of being excluded or included, the more fundamental issue of sub-optimal macroeconomic environment in the form of low income capacity and pervasive poverty level among the populace has played a more critical role of eroding the eligibility of the bulk of the financially excluded" (Moghalu, 2011). Specifically, he noted that the major challenges within the general economic conditions have manifested in the forms of:

- A major challenge in the financial inclusion process is how to ensure that the poor rural dwellers are carried along considering the lack of financial sophistication among this segment of the Nigerian society due to the general low level of financial literacy. Majority of the estimated 40 million financially excluded Nigerians lack knowledge of the services and benefits derivable from accessing financial services, while staff of the service providers often display lack of adequate understanding of the services and so unable to educate effectively. In fact sub-optimal outcome from attempts to increase customer awareness is reflected in the lack of appreciable progress

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in the literacy level of the populace. This has remained a major impediment to the progress of the financial inclusion as a result process.

- Another major challenge, especially from the part of growing saving is the inability of the populace to save as a result of double digit inflation in the economy, with its attendant effects on real interest rate and continuous loss of money value. The disincentive negative real interest rates obviously have made potential savers remain with other non-bank avenues for savings.
- There is also the challenge of increasing poverty. Though the economy has been reported to have grown at an average of 7.0 per cent between 2009 and 2011, unemployment rate continue to increase while progress on many of the poverty-reducing Millennium Development Goals has been slow.
- The uncompetitive wage levels, particularly in the public sector where a large number belong to the low-cadre means that these groups are excluded financially. Though their salaries are paid into the bank but the personnel only visit the bank once in a month to collect their salaries with little or nothing to save.

Agreed that much has been done thus far and that the Central Bank of Nigeria and deposit money banks are currently implementing various policies and processes designed to enhance financial inclusion in the country, there exists a couple of fundamental issues which remain critical for any appreciable progress to be made.

Empirically, despite readiness and enthusiasm of the excluded be included, lack of awareness, low-income/poverty and proximity are the major barriers that prevented people from accessing services of banks, microfinance institutions and non-interest banks among other formal channels.

Majorly this bottom of the pyramid (low-income financially excluded) populace also face the issue of stringent and restrictive documentation

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requirements by the financial institutions in the country. The Know Your Customer (KYC) procedures mean that the deficient and grossly inadequate documentation holdings of the low income and largely informal sector operators/members will prevent them from being able to access the financial system. The inability of a large portion of the excluded group to meet the basic identification requirement and absence of functional unique identifier identity management system remain a fundamental impediment for high financial inclusion rate to be achieved. However, this particular challenge is currently being addressed by the Bank through the tiered approach which aims at relaxing some of the stringent requirements of the KYC procedures for the low-income financially excluded.

Also of great concern is the largely inefficient e-channel service of most of the deposit money banks. The various e-channels and applications such as ATM, POS and mobile banking platforms that are supposed to facilitate electronic transactions have remained deficient in most cases. ATM card requests stay untreated for weeks and months, while most subscribers to internet and mobile banking platforms complain of poor services. This challenge manifest itself generally in form of inadequate financial infrastructure especially in the rural areas where the bulk of the financially excluded are found and therefore limits options for accessing financial services.

Policy makers have tended to be more concerned with ultimate inclusion as the objective whereas there are more topics under the final inclusion objective which are critical to achieving the various ingredients of financial inclusion. The reason for this is not far from the fact that unlike the developed and high income economies where a higher level of inclusion was already achieved, there is need for a detailed and holistic approach. Financial inclusion is concerned with the entire financial services and not just the banking sub-sector. It involves the other services in the entire financial system like insurance, mutual funds, financial markets, credit services, government to citizen services, among others.

Financial literacy rate is low, particularly among the rural dwellers making banking and other financial services difficult for the operators. In addition,

information and telecommunication knowledge is still low in the country, making access to financial services difficult. Inadequacy and inappropriateness of awareness campaign sometimes inhibit the level understanding of financial transactions and ability of the illiterate to take advantage of the possibilities in financial services. Critical to awareness is the difference in language of the target population and the language of education and therefore reduces effectiveness of communication. An ununiformed population cannot effectively use financial services.

There are increasing reasons why every nation should strive hard to deepen financial inclusion. The business perspective remains very compelling, particularly in the Nigeria environment. The mass retail market, which consists of Nigerians with monthly income of between N6,000 to N40,000 have a combined monthly income of N590 billion, compared with N570 billion monthly income for all other income groups. The former segment is not captured in the financial system. It is therefore obvious that being able to capture this segment into the financial system offers enormous amount of cheap investible funds that will go a long way to be a game-changer in the robustness of the nation's financial system and increased availability of credit at lower cost.

6.0. THE WAY FORWARD AND CONCLUSION

6.1. The Way Forward

The clear fall out of the latest global economic and financial crises of 2007-2008 together with the danger of another crisis, arising from the impending threat of the protracting Eurozone debt crisis has called for concerted efforts around the globe towards fortifying the financial markets. Financial inclusion has emerged as one major approach by policy makers to strengthen the financial sector and improve its ability to successfully ward-off and reduce the possible effects of any subsequent financial crisis. It is believed that increased financial inclusion will expand the capacity of the financial markets and thus, make it able to withstand any local, regional or global economic shocks. In view of the intricacies and expertise required, financial inclusion strategies should now focus more on instituting a systematic approach, which aligns roles and responsibilities with institutions and frameworks to guarantee continuity, sustainability and efficiency.

Role of Financial Regulator

In the consultative group to assist the poor (CGAP) financial access 2010 survey, consumer education and protection were identified as the two most reported responsibilities of regulators. Financial literacy and consumer protection are targeted at ensuring that users of financial services are not unduly exposed to extortion and abuse. Improved literacy level among consumers and a strong consumer protection system reduces greatly, distortions in the market information available to consumers. This will consequently lead to healthy competition, increased transparency and improved access in retail financial markets. The regulator, especially in developing countries like Nigeria, will do well to embrace not only coordination and constant consultation with private partners and financial institutions, but also actively engage more frequently in implementation. Such pragmatic role should include cross-cutting initiatives, ranging from information campaigns like creation of virtual web; inclusion of financial literacy in school curriculum and training of school instructors as well as tight disclosure policy and robust dispute resolution framework. These activities, as an integral part of the financial literacy programme, should span several departments, agencies in the financial markets and ministries, including the informal sector. The Consumer Protection and Financial Policy and Regulation Department in the CBN should provide the strategic lead on financial inclusion issues. In addition, the relevant Departments should be saddled with the responsibility of investing heavily on research programmes that would help improve financial education and protection. Other activities that should be specifically under the purview of regulators include the setting-up and owning of the financial inclusion strategy document and implementation of the reforms, regulation and promotion of microfinance institutions and activities that would promote rural finance in the country.

Role of Banks

The role for banks in the financial inclusion process is pivotal and cannot be overemphasised. In fact, there is the general believe that financial inclusion process is not possible without the banks. There are views also that only an inclusive financial system will promote financial inclusion while the banks remain the critical agent of achieving this through the provision of efficient and key financial services. Hence, most countries today formulate their financial inclusion strategies in a manner that growth in rural areas should be

facilitated by banks. It is therefore pertinent that the banks should take steps to properly play their roles in the financial inclusion process. Banks in Nigeria are therefore expected to build capacity in order to adequately support and propel the growth of financial inclusion in the country. Building capacity will include training and equipping of staff with the necessary skills, particularly in the area of rural development financing. Other processes of building bank's capacity to support and enhance financial inclusion include the use of grants and special funding to seek for innovative ways of getting services to customer so as to reduce transaction costs, improve and optimize the use of existing infrastructure and delivery structures rather than creating new and costly ones. Banks should seek to adapt or introduce new financial products, and where appropriate, invest well in technological research, especially in areas of financial transaction dynamics and needs of the rural areas/informal sector.

Role of Government

A favorable legal environment for lending may enable banks to operate more profitably through lending and grow eventually leading to expansion of banking services. Government role is more of creating the enabling environment for the operators and the consumers to relate and interact in a mutually beneficial way. Specifically, working through the regulatory organ, the government needs to strengthen land and property registries as well as enhance the transparency and efficiency of court systems. Other specific steps the government need to implement include government's continued payment of interest rate subsidies for agricultural lending in favour of the agricultural sector, and promotion of investment in communications, physical infrastructure, and services, particularly power and education. The creation of commercial courts to handle banking related cases, particularly loans, for easy dispensation of justices would be a welcome development as such cases are currently unduly delayed in the conventional courts.

Role of the Informal Sector

The peculiarities and characteristics of the target population for financial inclusion has shown over the years that the structures and platforms of the conventional banks and non-bank financial institutions are inappropriate and inadequate to successfully capture the financial needs of the

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financially excluded low-income and rural group. The informal sector could be a range of voluntary organisations, including community groups, private clubs, faith groups and tenant or resident groups and could also take the form of mutual, community interest groups, trade organisations, industrial and provident societies and charitable organisations.

In most part of the emerging economies like the BRICS and even in the conservative developed economies, voluntary organisations, community groups and social enterprises are fighting inequality, creating a better environment for people to live and making people's lives better. These institutions have clearly become veritable agents of social and economic regeneration. They are known to help the financially excluded have free access not only to funding but also to the advices they require and in the way that suits them. The informal sector, as an aggregation of the common people (the majority poor) and the government (as an organ of the society responsible for guaranteeing social and economic welfare of the entire populace), both share common interest in some areas and this has further accentuated the need for partnership between the two. Indeed, the informal sector:

- Provides an opportunity for the common man to have a say in the issues that affect their lives and this is in agreement with the objective of the government, especially in a democratic dispensation to support a vibrant and civic society, enabling people to better participate in solving local and national issues;
- Is made of groups that come together and thrive largely on volunteering and self-help and this helps to build a closely knitted and strong community life. This complements the government's objective of promoting greater number of levels of shared actions within the community and amongst diverse sections of the society; and
- Provides social enterprises such as poverty self-help groups, trade associations, and market groups etc. all of which have helped in recent times to create new ways of delivering social and environmental benefits through business approaches. Their activities have helped to deliver financing and economic empowerment as a public good in line with the government

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objective of ensuring equity and equality among the populace in terms of equal access to economic opportunities and social welfare.

Government therefore has a critical role to set out measures that will not only promote the value of these social enterprises and improve the provision of information and advice to social enterprises, but also enable access of these social enterprises and groups to finance for their effectiveness. Some of the specific steps needed to achieve this include legal reforms that will ease and promote the establishment of such groups and simplify their regulations. It is important that the government, policy makers and regulators put in place measures in the form of a new framework that will grow this partnership between the informal sector and government. Such relationship will definitely go a long way not only to give opportunity to improve the society, sustain the environment and establish new forms of enterprise but also assist in building and strengthening a prosperous, stronger and equitable society.

Role of Technology

The ability of banks and other financial institutions to take advantage of the huge untapped potential in the smaller towns and cities and provide them with the required type and form of financial services poses a big challenge. Banks should make it a priority first to deploy core banking solution (CBS) that will support the volume and form of services required to capture the low income and rural population. The next step would then be not just to deploy but also sustain a multi-channel approach using handheld devices, mobiles, cards, micro-ATMs, branches and kiosks, with appropriate structures to ensure seamless integration with the banks' CBS. On the part of the government, appropriate policies should be implemented to encourage and facilitate technological research and innovation that will make financial services not just easily accessible but also cheaply available.

In a related development, Government and banks would need to move away from the attitude of viewing the objective behind financial inclusion as a national social responsibility or charity activity, but should begin to look at it more as a profitable business opportunity and an enabler of development.

6.2. Conclusion

There is global consensus on the importance of financial inclusion due to its key role of bringing integrity and stability into an economy's financial system as well as its role in fighting poverty in a sustainable manner. It is more pertinent in the case of Nigeria as a developing nation to use financial inclusion as a platform not just for growing the financial sector but more as an engine for driving an inclusive economic growth.

Greater financial inclusion is achieved when every economic activities, geographical region and segments of the society have access to financial information, financial assistance, financial services and financing with ease and at minimum cost. This helps to promote balanced growth through its process of facilitating savings and investment and thus causing efficient resource allocation from surplus sector/segments (unproductive) of the society to deficit sectors/segments (productive) of the society. By this process, financial transaction is made easy, income level and growth increases with equity, poverty is eliminated, while the economy becomes insulated from external shock.

It is important to note that as indicated in the various country experiences, the nature, form and challenges of financial inclusion differ between jurisdictions and as such cannot be addressed by a single product or technological innovation. The policy makers will have to realise that there is not a single pre-determined recipe for improving financial inclusion, and developing country policy makers are in the best position to evaluate their unique institutional, socio-economic, financial and political circumstances and pursue the strategy that best fits. In addition, from the varying country experiences, it is clear that a first major step towards ensuring financial inclusion is the political will of the government encapsulated in the creation of institutional and legal framework required for adoption and successful implementation of financial inclusion policy in any economy. It is on the basis of this frame work that financial service providers evolve, compete and thrive.

On the part of regulators and supervisory bodies, there is need for a consistent and coordinated effort at not only ensuring that the financial

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institutions offer basic banking products at minimal cost through all their channels to most of the population but also promote consumer enlightenment and protection policy. Efforts must be made to close the huge gap/spread between deposit and lending rate to encourage savings.

Indeed, a fully-fledged financial inclusion will provide a gamut of financial services, though financial inclusion in a restricted sense can start with some financial services like electronic payment system. Particularly, mobile telephone penetration can foster economic growth, not only by facilitating financial inclusion, but also by consolidating the impact of financial inclusion on economic growth (Andrianaivo and Kpodar 2010). Through higher mobile penetration, it becomes easier to have access to deposits and loans. It indeed reduces the physical constraints and costs brought by distance and time. Community based micro-credit programme, self-help localised cooperatives, and government special targeted interventions represents the very basics platforms through which the poorest in the society can be easily introduced into the financial system. Sustainable domestic economic growth and development with pervasive income redistribution will help majority of the financially excluded populace to overcome poverty, increase income, save more and embrace formal financial service platform.

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