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ENHANCING NIGERIAN ECONOMIC GROWTH THROUGH INTEGRATIVE FINANCIAL INCLUSION STRATEGY

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ABSTRACT

This paper investigated how to fully integrate the unbanked adult population in Nigeria into the formal financial sector as a means of boosting the economy. To achieve this objective, the paper reviewed both theoretical and empirical literature on financial exclusion, financial inclusion, including Nigeria's historical and the 2012 National Financial Inclusion Strategies, and the successful financial inclusion models of some selected countries. The 2012 strategy, amongst others, set a target of achieving 20% financial exclusion by 2020. However, despite Nigeria's several attempts at financial inclusion since 1976, with such programmes as the rural bank, people's bank, community bank, agricultural credit schemes, and the recent 2012 financial inclusion strategy, the country still lagged behind some of its sub-Saharan counterparts in financial inclusion. This paper found that women are more financially excluded than men, while the North due to its high poverty and illiteracy level, coupled with its predominant Islamic practice is also more financially excluded than the South. The country's poor performance can be attributed primarily to its initial concept of financial inclusion which was more of a public social service as opposed to engaging the full participation of the private sector to make it an all-inclusive economic venture. The financial inclusion strategies also failed to provide financial products that target the poor and illiterate population, women and rural dwellers, on the one part, and specific products that will appeal to the Muslim population that practice Islamic faith in the North. Lack of basic infrastructure to support the inclusion projects for mobile money operators, and other branchless financial products, and the country's delay in adopting the Shared Agent Network banking, and other digital financial products, like its peers in sub-Saharan African countries were part of the drawbacks on the financial inclusion projects. To move forward, Nigeria must see financial inclusion as an economic growth venture, engage the private sectors with the right incentives, develop specific financial inclusion products that will woo the poor and illiterate population, and women especially those in the North. CBN should also consider more Islamic banking products, and develop financial products in the indigenous languages. Given the strides achieved by peer countries, the country should also consider the successful models of Kenya, Rwanda, and China, and digitization of all the payments in its agricultural credit schemes since agriculture has the highest employment in the country.

Keywords: Financial exclusion, financial inclusion, Unbanked, Digital Financial System, Mobile Money Operator, FSS2020, Maya Declaration.

1.0 INTRODUCTION

Financial inclusion undoubtedly is a catalyst for economic growth as it has the capacity to financially empower the citizenry, and hence generate employment, reduce poverty, create wealth creation and eventually improve the welfare and general standard of living. It has thus become topical amongst policy makers, researchers and development oriented agencies, such the Global Findex Data Base, a World Bank project in collaboration with Bill and Melinda Gates Foundation, which started in 2011, and has become the world's most comprehensive data set on how adults save, borrow, make payments, and manage risk. There is also the Brookings Financial and Digital Inclusion Project (FDIP), launched in 2014, to examine access to and usage of secure, affordable formal financial services among underserved populations, with the objective of providing policymakers, the private sector, representatives of non-governmental organizations, and the general public with information that can help improve financial inclusion in their respective countries and beyond. Of course, in Nigeria, we have the Enhancing Financial Inclusion & Access (EFInA) that is working with UKAid and the Central Bank of Nigeria to provide financial inclusion status through surveys.

According to the 2017 Global Findex Report, about 1.7 billion adults from age 15 and above are financially excluded globally of which Nigeria constitutes about 4 percent of this number or 68 million financially excluded persons in 2017. (Demirgüç-Kunt et al 2017) According to EFInA's 2016 survey, of the 96.4 million adults from age 18, about 41.6 percent or 40.1 million were financially excluded as at December 2016. This means that about 40.1 million Nigerian adults had no savings or current account with any bank, and lacked such products as loans, insurance services, and much more. The Central Bank of Nigeria (CBN) in collaboration with other stakeholders, as part of their continued efforts to bring every adult into the formal sector, launched the National Financial Inclusion Strategy on 23rd October, 2012 with the goal of achieving 20% financial exclusion by 2020. This would mean increasing adult with access to payment services from 21.6% in 2010 to 70% in 2020, those with saving accounts from 24.0% to 60%; access to Credit from 2% to 40%, Insurance from 1% to 40% and Pensions from 5% to 40%. To achieve these goals, the CBN adopted Agent Banking, Tierred Know-Your-Customer Requirements, Financial Literacy, Consumer Protection, Linkage Banking, Implementation of the MSME Development Fund, Credit Enhancement Programmes such as Agricultural Credit Guarantee Scheme (ACGS), Commercial Agricultural Credit Scheme (CACS), Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL), and Refinancing and Rediscounting Facilities for SMEs.

Unfortunately, the 2012 Financial Strategy did not achieve the desired goals as financial excluded persons actually increased from 39.7 % in 2012 to 41.6 % as at 2016. However, in order to still pursue these noble targets, the CBN had since 2016 pursued financial inclusion strategies vigorously by approving several agent banking licenses in close collaboration with financial institutions and deposit money banks. The target was to add about 7.6 million customers into the formal financial sector from 2018 with a target of about 60 million adult population with about 500,000 agent networks by 2020. These efforts are to redeem the country from its unenviable position as one of the seven countries, Bangladesh, China, India, Indonesia, Mexico, Nigeria, and Pakistan constitute that constitute about 46 percent of the global unbanked population according to the 2017 Global Findex Report. The report showed that bringing these hundreds of millions of persons into the formal financial sector, would create a large depository of savings, investable funds, investment and therefore global wealth generation. Globally, women, and the low income earners and poor group constitute the bulk of the population, and therefore any effort at bringing them into the formal financial services will promote enormous capital accumulation, credit creation and investment boom. (Kama, U & M. Adigun (2013)

2.0 THEORETICAL FRAMEWORK

The concept of financial inclusion actually started with the United Nations Capital Development Fund (UNCDF) in the late 1990s, as a means of supporting microcredit institutions in order to transform them into microfinance institutions to serve the most vulnerable segments of societies.

Though the literature on financial inclusion and economic growth is recent, there are strong evidences that financial inclusion does impact economic growth positively. (Arnold et al 2017). According to Arun et al (2015), access to formal financial services by the "Unbanked" through savings could boost global economy by more than $157 billion annually. Odi and Ogonna (2014) added that financial inclusion can also reduce poverty, and remove barriers to economic participation of rural dwellers, women, youths and those at the bottom of poverty line. They opined that financial inclusion can also improve the financial education and financial empowerment of the rural dwellers. Ashraf et al (2006) further stated that financial inclusion will also raise the level of investment in real or productive activities leading to higher levels of output, income per capita and by extension, economic growth and development.

While there are several definitions of financial inclusion, to the World Bank Group, financial inclusion"means that individuals and businesses must have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance delivered in a responsible and sustainable way". To this end, World Bank Group's Universal Financial Access 2020 initiative is to financially empower the poor and the unbanked through financial inclusion products so as to enable them to start and expand businesses, invest in education or health, manage risk, and weather financial shocks, and to generally improve the overall quality of their lives. The same reasons why it is as supporting 7 out of the 17 Sustainable Development Goals. The UFA 2020 vision actually targets about 1 billion adults worldwide, to have access to a transaction account or an electronic instrument to store money, send payments and receive deposits as a basic building block to manage their financial lives by 2020. The G20 also in support the World Bank's Universal Financial Access (UFA) by 2020, is promoting financial inclusion worldwide through the implementation of the G20 High-Level Principles for Digital Financial Inclusion. (Worldbank). Besides the World Banks' UFA 2020, there is also the Maya Declaration, a global and measurable set of commitments by developing and emerging country governments to greater financial inclusion. (Microfinance Gateway (2012). There are four areas of Commitments under the Maya Declaration, which are also in sync with the G20 Principles for Innovative Financial Inclusion: (i) Create an enabling environment to harness new technology that increases access and lowers costs of financial services; (ii) Implement a proportional framework that advances synergies in financial inclusion, integrity, and stability; (iii) Integrate consumer protection and empowerment as a key pillar of financial inclusion; and (iv) Utilize data for informed policymaking and tracking results. (Hannig, A

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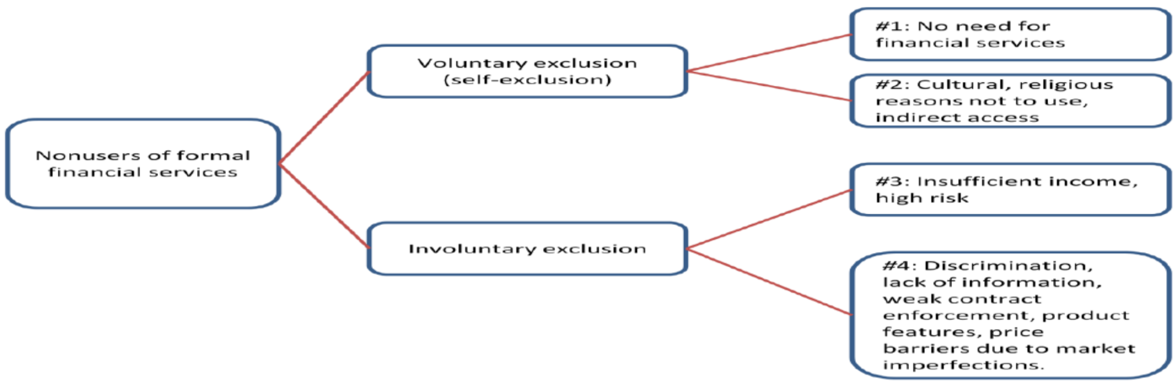
(2012). The Maya Declaration which started with 80 member institutions, since its emergence in 2011 following consultations among Alliance for Financial Inclusion (AFI'□™s) members and steering committee, further deliberation at the 2011 Global Policy Forum (GPF) in Riviera Maya, Mexico, has grown into 100 member institutions. (Center for Financial Inclusion (2013). Technically, it makes it possible for the public to hold policymakers accountable for their commitments. It also provides for peer-to-peer knowledge exchange and learning among financial regulators and policymakers to help develop and implement innovative and relevant policy solutions.. (Microfinance Gateway (2012).

2.1 DIMENSIONS OF FINANCIAL INCLUSION

The success of financial inclusion can be expressed in its outreach, usage, and quality of financial services . The outreach dimension speaks to the ease of accessing a financial service point, and according to the World Bank's Global Findex survey, about 20 percent of financially excluded persons cites distance to a point of financial service as the reason for their exclusion. According to Ibeachu (2010), non-commercial bank institutions such as cooperatives, specialized state financial institutions, and deposit- taking microfinance institutions can bridge this gap. The usage dimension measures the use of financial services, while the quality dimension measures the extent to which financial services address the needs of the consumers, such as ease of cash withdrawal at any time through ATM, credit cards, debit cards, etc and the ease of electronically transferring money. (Amidžić et al (2014). Financial inclusion according to Brookings Financial and Digital Inclusion Project (FDIP), in its August 2015 report, can be measured under country commitment, mobile capacity, regulatory environment, and the adoption of traditional and digital financial services. The 2016 report ranked the countries along these four dimensions with Kenya leading the team with aggregate 84%, while Nigeria came at a distant 10th with 72%. Though Nigeria showed strong performances in country commitment with 94%, and regulatory environment with 83%, its performance under Adoption at 53% was way lower than Kenya with 78%. Other countries that scored higher than Nigeria include South Africa with an aggregate score of 78% in the 4th position with adoption of 72%; Chile scored 74% on 8th position with an adoption of 75%. (Villasenor et al 2016).

2.2 FINANCIAL EXCLUSION

Financial exclusion according to the European Commission is the process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong. (Anderloni, L et al (2008), Generally, financial exclusion are of two broad divisions- the Voluntary and Involuntary financial exclusion, as depicted in the figure 1 below:



Source: Adapted from World Bank (2014).

Figure 1: Types of Financial Exclusion.

Voluntary or Self Exclusion refers to the people or firms that choose not to use financial services either for lack of promising projects or because of cultural or religious reasons. Since this type of exclusion is not a direct consequence of market failure, little can be done to address it. However, there is always room for improvement, by increasing, for example, financial literacy or encouraging the entry of specialized financial institutions that offer financial products tailored to meet cultural and religious requirements. From a macroeconomic viewpoint, this exclusion is driven by a lack of demand. The Involuntary Group are individuals or firms that do not have sufficient income or, in the case of the credit markets, have an excessive lending risk profile, and therefore is also not the result of market failure. A second category of involuntarily exclusion consist are those caused either by government failures or market imperfections. Financial exclusion, according to Kempson and Whyley (1999), can also be classified into: (i) Access exclusion, which is a restriction of access to financial services caused by such factors as branch closures or last mile distance to access point, or unfavourable risk assessments; (ii) Condition exclusion, where individuals are excluded from financial services due to conditions attached to the product offering. (iii) Price exclusion, is as a result of onerous pricing beyond the reach of certain individuals, while (iv) Marketing exclusion refers to unfavourable market conditions. Kempson and Whyley (1999) also identified some households that have disengaged, and those who have never engaged in financial services. They also stated that financial exclusion can be a temporary or virtually permanent condition.

3.0 EMPIRICAL REVIEW

According to Khan (2011) substantial evidence exist that shows that countries with high financial inclusion index show high level of economic growth and development, this is as more people become financially included in the economic system, there is a higher the level of investment in real or productive activities leading to higher levels of output, income per capita and, by extension, economic growth and development. Sahay, et al (2015) in their IMF Staff discussion note, noted that financial inclusion increases economic growth up to a point as greater access of firms and households to various banking services, as well as increasing women users of these services, lead to higher growth. Also, various economic sectors that are dependent on external finance grow more rapidly in countries with greater financial inclusion. However, the marginal benefits for growth wane as both inclusion and depth increase, as these benefits begin to decline and even become negative, for some advanced economies. Citing the incidence of the 2017 financial crises, they observed that financial stability risks increase when access to credit is expanded without proper supervision. This is as financial buffers, especially in countries with weaker regulation and supervisory roles, decline with broader access to credit, other things being equal. This does not however, impact on the proliferation of other types of access to financial services such as automated teller machines (ATMs), branches, and transaction accounts. This is also true for closing gender gaps in account usage and promoting diversity in the depositor base. Regarding financial inclusion in Nigeria, Sanusi (2011) attributed the high incidence of poverty in Nigeria to the increasing number of financially excluded people, noting that an optimal level of financial inclusion is needed to boost growth, increase GDP and improve economic sustainability. He stated that it would require a focused financial inclusion strategy to achieve high level of economic sustainability and development in Nigeria, as no economy can achieve financial stability, economic sustainability and inclusive growth without achieving a high level of financial inclusion.

Paramasivan and Ganeshkumar (2013) reported that branch density has a significant impact on financial inclusion in India. Julie (2013) investigated the relationship between financial inclusion and economic growth in Kenya and reported strong positive relationship between the two variables. Julie (2013) also observed that economic growth has a strong positive relationship with branch networks and a weak positive relationship with the number of mobile money users/accounts. Ighal and Sami (2017) also examined the impact of financial inclusion on growth of the economy over a period of seven years in India and found positive and significant impact of number of bank branch and Credit deposit ratio on GDP of the country, whereas an insignificant impact has been observed in case of ATMs growth on Indian GDP. Odi and Ogonna (2014) investigated the sustainability of financial inclusion to rural dwellers in Nigeria using descriptive study and content analysis, and observed that economic growth of any nation greatly depends on the sustainability of financial inclusion to rural dwellers. The study therefore recommended collaboration between Deposit Money Banks (DMBs), Microfinance Banks (MFBs) and Communication services providers to enhance intermediation of financial services for rural dwellers. They also recommended financial education of rural dwellers on the importance of banking to discourage most of them that store their money under their pillows at home. Cyn-Young and Ragelio (2015) examined the relationship between financial inclusion, poverty and income inequality in Asia. The study which focused on developing Asian economies sought to determine country-specific factors and macroeconomic variables that affect the level of financial inclusion for selected 37 developing Asian countries. They find that demographic factors and per capita income significantly affect financial inclusion. The study also shows that financial inclusion reduces income inequality and poverty. The study suggests that strong financial regulatory oversight, rule of law and enforcement of financial contract would improve financial inclusion efforts. Migap et al (2015) examined financial inclusion as a strategy for inclusive growth in Nigeria. The study compared Nigerian financial inclusion index with other emerging economies in the upper middle income strata. They find that Nigerian financial inclusion indicator is still shallow compared to emerging economies both within and outside Africa. The study suggests that active participation of media and educational institutions should be encouraged to promote financial literacy in Nigeria. Nkwede (2015) also examined financial inclusion and economic growth in Africa, using Nigeria as a case study. Data for the study covered the period 1981 to 2013. The study shows a negative relationship between

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financial inclusion and growth of Nigerian economy. He attributes the finding to high level of financial exclusion of adults from financial services. Onaolapo and Odetayo (2012) studied financial inclusion in Nigeria from the perspective of microfinance banks using a survey design method. They find that access to financial services through microfinance institutions by less privileged people promotes employment generation, reduction in poverty and overall economic growth. Joseph and Varghese (2014) studied the role of financial inclusion in the development of Indian economy. The study investigated the activities of five private sector banks and five state banks from June to November, 2013. Onsite and offsite ATM usage, number of bank branches, credit cards and debit cards per customers were used as proxies for financial inclusion variable focusing on rural and semi-urban areas in India. They find that quite a number of people are still excluded from financial services even after the introduction of inclusive banking initiatives in the country. Aduda and Kulanda (2012) examined financial inclusion and financial sector stability with reference to Kenyan economy. The study which is exploratory in nature reveals that financial inclusion is a prerequisite for economic growth and development in Kenya because various financial inclusion programmes have impact on Kenya financial stability. The study suggests that government should intensify its financial inclusion strategies so that more people would have access to financial services especially people in the informal sector. Brune et al (2012) also found that increased financial access through mobilization of rural savings improves the livelihood of Malawian rural population because poor households have access to savings for agricultural inputs. Uchena et al (2016) examined the effect of financial inclusion on economic growth and development in Nigeria for the period 1986 to 2015. The study shows that (i) credit to private sector to GDP ratio has significant negative effect on economic growth (ii) liquidity ratio of commercial banks has significant positive effect on economic growth (iii) loans to rural areas and deposit from rural areas have significant positive on poverty reduction in Nigeria. Onalo et al (2017) examined the effects of financial inclusion in the context of banking habits of rural population on the Nigerian economy based on deposit and loan of rural dwellers with rural branches of commercial banks on Gross Domestic Product (GDP) using data from 1982 to 2014. The results showed that in the long run, rural dwellers' deposit and loan with rural branches of commercial banks have influence on the performance of Nigeria economy in terms of GDP.

4.0 FINANCIAL EXCLUSION IN NIGERIA

The World Bank 2017 Global Findex Report showed that Nigeria constitute about 4 percent of the global 1.7 billion financially excluded adults from age 15, which translates to about 68 million adults, while EFInA 2016 survey, using an adult population of 96.4 million from 18 years showed that about 41.6 percent or 40.1 million were still financially excluded as at December 2016. Most of the financially excluded according to EFInA 2016, lack formal and informal financial transaction as they save their money at home and only borrow within the circle of friends and families. The EFInA 2016 report showed that financial exclusion which was 52.5 percent in 2008 dropped to 39.7 percent in 2014, but increased to 41.6 percent in 2016, which when compared with other sub-Saharan African countries, showed a dismal performance South Africa's 13 percent ;Kenya with 17.4 percent; Ghana at 25 percent, Rwanda with only 11 percent, while Zambia and Togo recorded 40 percent respectively. On demographic spread, of the 40.1 million financial excluded persons, 55.1 percent or some 22.1 million were female, while 18 million or 44.9 percent were male. Also, about 53.5 person of the financially excluded fall within 18-25 age bracket, while 47.2 percent fall

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within age bracket of 56 years and above. Those with 26-35 years has 35.9 percent; 36-45 years with 32.6 percent, and 46-55 years with 38.9 percent of their population financially excluded. The report also showed that about 52.2 percent of the 59.7 million rural dwellers were financially excluded, while only 24.4 percent of the 36.7 million urban population were excluded financially in 2016. Finally, the report showed that of the six geopolitical zones, the northern region recorded highest financial exclusion: North West – 70 percent; North East – 62 percent, North Central – 39 percent, while the South, recorded the least with South West at 18 percent, South East – 28 percent, and finally South- South at 31 percent.

Some of the reasons for financial exclusion in Nigeria according to Onaolapo, A. and Odetayo, T. (2012), include (i) some people are frustrated because of volume of bank documentations for opening of accounts, (ii) onerous terms and conditions for opening bank accounts and or applying for credit, (iii) levels of bank charges, and most of them as hidden charges such as charges on e-banking and mobile transactions, unexplained deductions ranging from charges on text message alerts, which sometimes are sent and charged twice (N5 or N10, depending on the bank), ATM charges despite using the bank's ATM, charges on Internet access monthly and a separate charge for any money transfer conducted on the Internet, (iv) physical access and cultural barriers in financial inclusion. Onaolapo, A. and Odetayo, T. (2012), also identified lack of financial education as a major cause of financial exclusion in Nigeria, as those especially in the remote villages, lack requisite knowledge of the importance of banking services and the various products. Integrating these category of people would thus require all stakeholders – banks, government and even private organizations, as according to Odi et al (2014), most of the financial excluded persons are the poor and uneducated rural dwellers, who are also the endangered and the forgotten race by the politicians due to lack of National Philosophical Base, lack of Integrated Pilot Demonstration, lack of Cohesive Identity, Defective Local Economies, and lack of Financial Access.

4.1 FINANCIAL INCLUSION STRATEGIES IN NIGERIA

Nigeria's first attempt at financial inclusion dated back to 1976 with a 14-member committee led by Dr. Pius Okigbo to among other things, examine the adequacy, relevance or otherwise of the structure of the Nigerian financial system to meet the needs of the economy for rapid development. The committee recommended the setting up of rural banks in each local government area under a rural banking scheme in 1977. (Uchenna et al 2016). This was enforced by the CBN as they directed commercial banks to establish rural branches to mobilize savings, encourage banking habits among the largely agrarian rural population; provide credit for small scale industries and entrepreneurs; and finally promote balanced development and eventual reduction in the rural-urban migration. The programme had an early success between 1977 to 1980, before it suffered setbacks between 1980 into the early 1990s due to shortage of infrastructural facilities, inadequate financial and human resources of the commercial banks, and subsequent widespread banks distress, increased inflation and political uncertainty.(Zuru et al (2016). The rural banks were succeeded by the People's Bank and later the Community banks in 1989 to provide banking services for the low income/rural dwellers with small deposits and micro credits, since these sets of people were financially excluded because of the stringent requirements of the conventional banks. These banks were funded through grants and loans from the Federal Government, and the Central Bank of

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Nigeria and low-interest-bearing loans from philanthropic organization. (Zuru et al (2016). The People's bank also had some success with branch network growing from 169 in 1990 to 228 in 1992 and reached 275 by the end of 1994. Expectedly, the number of borrowers also increased from 8,007 in 1989 to 79,061 in 1990. Unfortunately the bank ran into problems and also collapsed due to government bureaucracies. (Zuru et al (2016). The Community banks (CBs) which were also licensed in the 1990s to serve the low income population, were unlike the People's bank, self-sustaining with the host community contributing some minimum capital, while the government provides 100 per cent matching grant for the community. By 1999, there were about 550 community banks with total assets base of N8.9 billion, while total deposit also reached over N5.7 billion with loans and advances of about N2.9 billion. (Zuru et al (2016). Other earlier initiatives by the government include 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 to assist rural women that lacked formal financial services to finance their businesses. Between 1988 and 1994 the Fund disbursed over N300 million and USD$80 million to finance various projects in the country.

Sadly, as none of these earlier innovations provided the desired results, the government through the CBN in 2006, established the Financial System Strategy 2020 (FSS: 2020) in order to strengthen and deepen the domestic financial market, enhancing the integration of the domestic financial markets with the external financial market, supporting the real sector and promoting sustainable economic development. The FSS2020, is to target all persons above 18 years to have easy access to a broad range of financial products provided at affordable costs and with dignity for the clients. To drive this FSS2020, the CBN in collaboration with other stakeholders, initiated the 2012 Financial Inclusion Strategy to ensure that a clear agenda is set for increasing both access to and use of financial services within the defined timeline, i.e. by 2020. The 2012 strategy had following sets of targets for 2020, as shown in figure 2 below:

	TARGETS	2010	2015	2020
% of total adult pop.	Payments	36%	53%	70%
	Savings	24%	42%	60%
	Credit	2%	26%	40%
	Insurance	1%	21%	40%
	Pensions	5%	23%	40%
units per 100,000 adults	Branches	6.8	7.5	7.6
	MFB branches	2.9	4.5	5.0
	ATMs	11.8	42.8	59.6
	POS[2]	13.2	242.7	381.7
	Mobile agents[3]	0	31	62
% of pop.	KYC ID	18%	59%	100%

A PRODUCTS

- Payment is targeted to have the highest outreach at 70% by 2020, followed by savings at 60% by the same period

B CHANNELS

- Annual CAGR[1] of 3.3% targeted for deposit money bank branches and 8% for MFB branches
- ATMs and POS targeted to grow more rapidly to meet financial services demand and benchmark levels (CAGR of 20% and 43% respectively)
- Agents targeted to growth from zero to 62 per 100,000 adults over the target period - 2020

C CLIENTS

- Tiered KYC and consumer protection regulation should be in place to ensure sustainable growth
- National ID should be available to all Nigerians and financial literacy initiatives will be driven by the CBN and other financial services regulators

1) Compound Average Growth Rate
2) POS targets include retail agents, such as NIPOST
3) Mobile agents refers to mobile payments agents under the Mobile Payments Framework

Figure 2: CBN Financial Inclusion Targets

The target is to increase penetration of all five primary products (payments, savings, credit, insurance and pensions) to at least 40% by 2020: insurance and credit is 40%, pensions at 40%, savings at 60% and payments at 70%. By 2020, an estimated 73.4 million adults (based on a projected adult population of 104.8million) would have access to at least one formal financial product. To support these targets, the number of bank branches must increase from 5,797 in 2010 to 10,000 in 2020; ATMs from 9,958 to 62,440 and POS devices from 11,223 to 400,000. A mobile agent network of 65,000 agents will also be required by 2020. (CBN, 2012). There are also two key enablers, the National Identification Number (NIN), and Know Your Customer (KYC) Tier 1 ID. The 2012 NFIS also had an additional 15 targets for channels, products and enabling environment, as well as 22 key performance indicators (KPIs) related to these targets.

4.2 PERFORMANCE OF NIGERIAN FINANCIAL INCLUSION EFFORTS

The CBN, reported that only 58.4 per cent of Nigeria's 96.4 million adults were financially served as at end 2016, out of which only 48.6 per cent of the adult population used formal financial services. (CBN, 2018). Tables 1, and 2 are performances extracted from EFIna 2016 Survey on the 2012 NFIS.

Table 1: Performance of CBN key Financial Inclusion Channels in 2016.

Definition of Indicator	Base line 2010	Actual 2014[47]	Actual 2015	Actual 2016	Target 2016	% Achieved 2016	Trend 2015-16	Status	Target 2020
Commercial Bank Branches per 100,000 adults	6.8	5.9 (5,508 branches)	5.7 (5,462 branches)	5.6 (5,446 branches)	7.5 (7,300 branches)	75%			7.6 (8,000 branches)
Microfinance Bank Branches per 100,000 adults	2.9	2.2 (2,107 branches)	2.3 (2,227 branches)	2.3 (2,197 branches)	4.6 (4,500) branches)	50%			5.0 (5,300) branches)
ATMs per 100,000 adults	11.8	17.0 (15,935 ATMs)	17.2 (16,452 ATMs)	18.0 (17,440 ATMs)	46.2 (44,800 ATMs)	39%			59.6 (63,000 ATMs)
PoS Devices per 100,000 adults	13.3	87.9 (82,549 PoS)	122.4 (116,868 PoS)	116.3 (112,847 PoS)	524.1 (509,000 PoS)	22%			850.0 (899,000 PoS)
Agents per 100,000 adults	0.0	N/A	N/A	18.8 (18,228 agents)	37.2 (36,100 agents)	51%	N/A		62.0 (65,600 agents)

Source for Actuals: CBN for commercial bank branches, microfinance bank branches and agents; CBN and Interswitch for ATMs; NIBSS for PoS Devices

Source: EFiNA 2016.

Besides the performance of the key channels, the CBN also reported the performance of the two key enablers; about 15.1 percent of adult registered under the National Identification Number (NIN), which is an increase of 101 per cent over 2015 value of 7.5 per cent. However, this increase was way below the 2016 target of 67.2 per cent. The Know Your Customer (KYC) Tier 1 ID, proxied by the percentage of the adult population having a mobile phone, decreased marginally from 62.8 per cent in 2014 to 60.4 per cent in 2016. Table 4.4 shows the comparison between CBN Financial Inclusion targets with 2016 performance.

Table 2: Comparison between CBN Financial Inclusion targets with 2016 performance

% of Total Adult	**Target**	**2015-Forecast (%)**	**2016-Actual (%)**	**2020-Forecast (%)**
	Payments	53	38	70

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Population	Savings	42	28	60
	Credit	26	2	40
	Insurance	21	2	40
	Pensions	23	8	40
Unit per 100,000 Adults	Branches	7.5	5.6	7.6
	MFB	4.5	2.3	5.0
	ATMs	42.8	18	59.6
	POS	242.7	116.3	381.7
	Mobile Agents	31	18.8	62

Source: EFinA 2016, IMF 2016, CBN Financial Inclusion 2016

The EFinA 2016 report of the performance across the six geopolitical zones show that the South-West recorded only 18 percent exclusion, which is even better than the national target of 20 percent by 2020; South East had 28 percent, South- South at 31 percent, making an average of 25 percent for the Southern part of the country. When compared with the Northern part, the North-West recorded 70 percent financial exclusion, followed by North-East with 62 percent, while the North-Central recorded 39 percent, which brings the average for the North to be 57 percent.

Again, comparing Nigeria's performance with other emerging economies, including those in sub-Saharan Africa, the results showed a dismal performance for Nigeria as shown the figures 3 and 4, below:

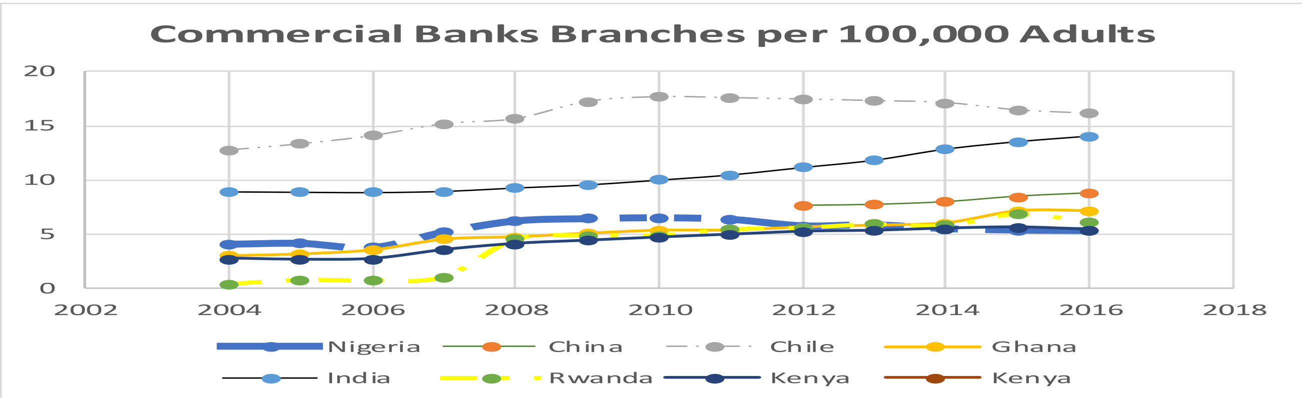

Figure 3: Cross Country Comparison of Commercial Bank Branches per 100,000 adults. Source: Data from World Bank, **Source: Data from World Bank**

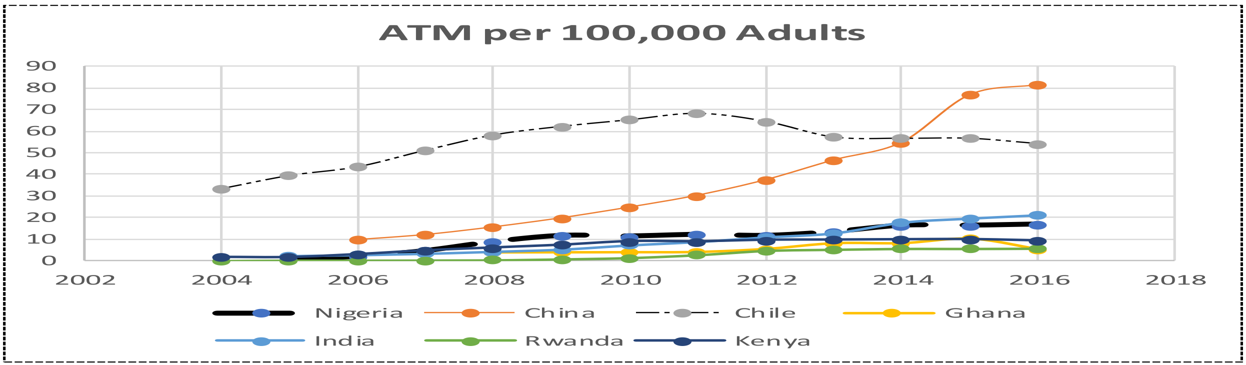

Figure 4: Cross Country Comparison of ATM per 100,000 adults. Source: Data from World Bank, Source: Data from World Bank.

4.3 APPRAISING 2012 FINANCIAL INCLUSION STRATEGY

The lower than target performance of the 2012 financial inclusion strategy could be attributed several factors such as Macroeconomics realities which manifested as security challenges especially in the North East, and Niger Delta regions of the country, and disturbances within the South Eastern region by the groups that were agitating for the Biafra nation. There were also socioeconomic shocks such as the economic recession, the heavy depreciation of the naira against the dollar which forced the closure of many local industries and the consequent loss of jobs, and the attendant rise in poverty in the country. Another factor was the slow take off of the digital financial services (DFS) and the abysmal performance of the national identity registration exercise that negatively impacted the Know-Your-Customer (KYC) requirements. There were also the case of wrong prioritization of the various action lists and KPIs by the CBN, and the continuous use of outdated set of solutions, which in the face of increasing technological innovation caused suboptimal performance. Lack of sufficient capital and incentives by banks to employ agents to sell and distribute their financial products in rural areas; Microfinance institutions (MFIs) not having sufficient capital to develop digital financial systems plus other operational challenges such as high customer acquisition costs, poor data management and insufficient customer deposits also contributed to the poor performance. Besides these factors, not tailoring the financial products to meet the needs of such groups as rural people, women and youth, and even the core Islamic populations of the North, plus the lack of sufficient financial literacy programs significantly contributed to the short fall in performance. CBN (2018).

Some other factors that affected the performance include the low impact of mobile money penetration, despite the high mobile telephone penetration, caused by poor infrastructure such as power, communications, roads, and security, etc; Last Mile Distribution, which is the availability and access to financial service points at the last mile; lack of a standardized, global national identity management framework and system. (David-West, et al (2017). The country also lacks efficient interoperability of the digital systems between operators, and the lack of policy framework that promotes and enhances competition and collaboration amongst stakeholders, including regulatory agencies. There is also the issue of nonconducive business environment that promotes sustainable digital financial system that prevents cyber insecurity, and abusive use of customer's data; eliminate low usage level of information and

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communications technology, enhance privacy protection issues;, and general social apathy towards the use of e-payment platforms in the country. (Fatokun (2018).

The performance of the 2012 strategy along the geopolitical lines as captured by the 2016 EFInA report is traceable to the literacy and poverty levels in these regions as shown in Table 4:7. The regions that recorded lower literacy rate also showed higher financial exclusion rates.

Table 3: Relationship between Literacy Level and Poverty of Geopolitical Regions in Nigeria

Region	**North West**	**North Central**	**North East**	**South West**	**South South**	**South East**
Literacy (%)	26.06	62.18	34.41	87.64	88.07	90
IGR-Nbn	64.78	54.9	29.25	414.72	198.4	51.31
Poverty-%	79.13	45.75	76.75	19.28	25.22	27.36
Financial Exclusion-%	70	39	62	18	31	28

Source: Poverty Index: Based on data collected between 2004 and 2014 by United Nation's Multi-Dimensional Poverty Index, these are Poverty Rate of all the 36 States in Nigeria. IGR – Source Budgit, and Literacy Level from NBS collation.

5.0 INTEGRATIVE FINANCIAL INCLUSION STRATEGY FOR NIGERIA

Since the 2012 financial inclusion strategy failed to achieve the set targets, this section proposes a financial inclusion framework that can accelerate the process of meeting the financial inclusion goals for Nigeria.

5.1 BRIDGING THE GAP BETWEEN THE NORTH AND THE SOUTH

To formulate any effective and sustainable financial inclusion model for Nigeria, must focus on how to provide a more pragmatic model for the North to catch up with the more financially incluve Southern states, where the South- West region is already performing above the national exclusion target of 20%. Given the higher level of poverty, and illiteracy in the North than the South, coupled with its teeming Islamic population, any financial inclusion model must recognize these three impeding factors.

While there are concerted efforts at bringing the North into formal education, which ofcourse has its normal gestation period, the Central Bank must develop financial products that can easily penetrate these segments of society in indigenous local languages to enable the local illiterate population have unhindered access to the products. This can be achieved through community, religious and market leadership campaign. The government can also mobilize the local population by having financial inclusion programmes on local television and radio stations. The commercial and microfinance banks have incentivized to also support this indigenous financial inclusion programmes. While this is true for the North, it can also be extended to the illiterate rural dwellers in the South to integrate them using their indigenous languages.

On the challenges with the Islamic adherents, Mohseni-Cheraghlou (2013), showed that religious Muslim do shy away from non-Sharia compliant financial system as shown in Figure 5 which showed the Middle East and North African (MENA) region performing lower than other regions.

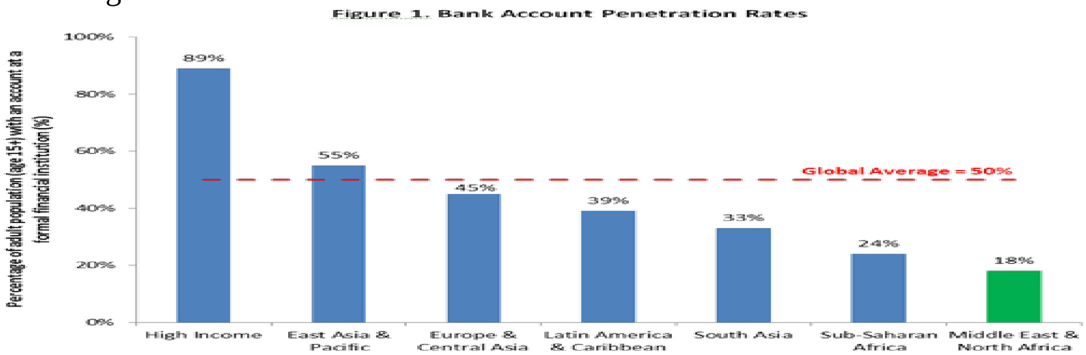

Figure 5: Bank Account Penetration Rate. Source. Mohseni-Cheraghlou (2013)

Mohseni-Cheraghlou (2013) further showed that the Islamic legal system prohibits pre-defined interest-bearing loans and other financial services, while it supports "loss-sharing profit-sharing" of the business activities between the financial providers and their customers, and this is at variance with most conventional financial services. As a means of bridging the financial inclusion gap, the government of Sudan, according to Soutoul (2017) mandated the full implementation of Islamic microfinance that complied with sharia principles such as risk-sharing, leasing and interest-free loans, and this has significantly helped the predominant Muslim population to embrace formal financial services since 2006, which has also helped in encouraging economic growth, poverty reduction and improving financial inclusion for the financially deprived segment of the society. Another positive effects of this model is improving financial inclusion for small farmers in Sudan, and in 2010, the World Food Program in partnership with microfinance institutions launched an initiative that linked 3,000 farmers to markets and sources of financing in three Sudanese states. The programme was so successful that just within two years, it has spread to nine states, with a total of 150,000 farmers as clients. Nigeria as at the time of this paper, has only has one fully operational non-interest Islamic Bank – Jaiz Bank, while the CBN recently licensed another non-interest bank – Taj Bank Limited only in July 2019 as the second functional non-interest bank in the country. Besides Jaiz bank, two other banks, Stanbic IBTC Bank and Sterling Bank Plc also secured license to operate a window of Islamic banking. Though the North has more Muslim population, this model can also benefit the Muslim adherents in the Southern states.

5.2 ACTIVE PRIVATE SECTOR PARTICIPATION

Louis & Chartier (2017) observed that most financial strategies failed to meet set targets, because financial inclusion projects are viewed more from social and public goods by governments to bring in the marginalized poor into the mainstream financial system, rather than an economic empowerment process through capital formation. It should therefore be pursued as market integration of the poor into the global financial system instead of the

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beneficiary -benefactor principle, under social responsibility programme. As a capital accumulation programme, financial institutions must see the business side of bringing the poor into the financial system that will eventually increase growth in terms of the banking sectors' customer base, and increase revenue stream by charging affordable fees for accounts, credit, loans, and insurance. While the CBN has taken ownership of the failure of the 2012 financial inclusion strategy to meet set targets, there must be efforts to move the financial inclusion campaign to an all-inclusive economic capital formation project involving the active participation of both the public and private enterprises. It is only when the private sector actively join forces with the government, that Nigeria can achieve its noble financial inclusion goals. The CBN in recognition of this imperative, on the 27th of March, 2017, initiated the Shared Agent Network Expansion Facilities (SANEF), an initiative that requires banks, Mobile Money Operators (MMOs), and Super Agents, to roll out a 500,000-strong shared agent network over the next few years. This programme will require training and managing the 500,000 agents, which will be very expensive. It will also require liquidity to keep the agent in business. (David-West, O and Taiwo,I (2018). The CBN also in its July 6, 2018 Refreshed Strategy came up with five action areas as most crucial to increasing financial inclusion in Nigeria, and these are: (i) to create a conducive environment to expand the Digital Finance System (DFS), since DFS has proven to be a low-cost approach to reaching unserved and underserved customers; (ii) Aggressively pursue the rapid growth of agent networks across the nation, particularly cash-in / cash-out (CICO) agents. (iii). Simplify the KYC hurdles to ease the opening and operating a bank account. (iv) Provide a conducive environment to serve the most excluded, and not necessarily the 'lowest hanging fruit'. (v) Drive a cashless payment channels, particularly in government-to-person and person-to-government payments. The CBN in order to coordinate the recommended actions, requires for the Financial Inclusion Secretariat (FIS) to be granted some powers to operate outside of the powers of the CBN to be able to convene across relevant parts of government, and to engage key private sector players at the most senior levels. The CBN and the Nigerian Communications Commission signed an MoU on digital payment systems in 2018. The bank is also collaborating with the Nigeria Inter-Bank Settlement System (NIBSS) to create a regulatory platform to allow financial technology start-ups to test solutions in a controlled environment. They are also partnering with the private sector to roll out a 500,000-agent network to offer basic financial services.

5.3 DIGITIZING THE AGRICULTURAL ECOSYSTEM

According to the World Bank (2018), agriculture constitute about 37 percent of employment in Nigeria , and according to Mgbenka, and Mbah (2016), about more than 80% of the total farmers, including medium and large ones, are smallholder farmers whose production capacity falls between 0.1 and 4.99 hectares holding. Evidently, Nigeria can increase their financial inclusion implementation by digitizing payments for the sale of agricultural products. According to Demirgüç-Kunt et al (2017) about 235 million unbanked adults receive such payments in cash in developing economies, out of which about 110 million are women as well as 125 million are adults in the poorest 40 percent of households. However, about 40 million adults that own account opened their first one to receive payments for the sale of agricultural products. Demirgüç-Kunt et al (2017) observed that digitizing agricultural payments could reduce the number of unbanked adults by up to a quarter or more in Mozambique, Nigeria, and Vietnam. This model of payment could help the unbanked farmers living in remote rural areas. Demirgüç-Kunt et al (2017 showed that about 59 percent of unbanked adults receiving agricultural payments in cash own a mobile phone, while it is about 33 percent in Ethiopia and Sierra Leone, while this figure is nearly twice as large in Côte d'Ivoire and Nigeria. (Demirgüç-Kunt et al 2017). Nigeria, as part of the measures of improving agricultural system, especially for smallholder farmers, introduced the e-wallet system in 2012 through which the government delivers subsidised farm inputs, such as fertiliser and seeds, to local farmers through private agro-dealers. The farmers, in turn, redeem these subsidised inputs from the agro-dealers, using e-vouchers, which they can access through their mobile phones. To implement the platform, the government initiated a Growth and Enhancement Support Scheme (GES), powered it by orchestrating the successful registration of more than five million Nigerian farmers, whose information and mobile phone numbers were added to the GES database. (Okereocha, C (2017). Nigeria can also upgrade the e-wallet system similar to the much celebrated Kenyan M-PESA model, to include other financial products for the farmers, especially the smallholders category. The system allows users to carry out financial transaction from depositing, withdrawing, transferring money and paying for goods and services easily through a mobile device. As a branchless banking service, it deploys the services of network of agents such as airtime resellers, and retail outlets as banking agents to allow its customers to deposit and withdraw money without having a bank account.

5.4 FINANCIAL INCLUSION MODELS FOR THE POOR AND LOW-INCOME POPULATION

The M-PESA digital financial revolution in Kenya provided several other platforms for the business communities in Kenya as reported by Pavulurin (2014): (i)Facilitate international money transfer,(ii) easy access to M-PESA services at all PostBank branches, (iii) Customers through partnership between Safaricom and Kenya Power (KPLC) can use M-PESA to pay their electricity bills, (iv) KilimoSalama ("Safe Agriculture") insurance allowed Kenyan farmers to insure farm inputs against drought and excess rain using M-PESA, (v) SMEP, a Kenyan micro-financier, allowed clients to make their loan repayments and savings contributions through M-PESA, (vi) Grundfos LIFELINK, allowed rural residents to pay for safe water through M-PESA, (vii) M-KESHO, an Equity Bank account is a savings-led product that could be easily managed via mobile phone M-PESA, (viii) M-PESA started LipaKaro service, allowing learning institutions to receive school fees via M-PESA, (ix) Airtel Money users could receive short term loans from Faulu Microfinance immediately on their phones through "KopaChapaa", (x) M-KOPA began to offer solar-powered lighting and mobile charging to rural Kenyans on a pay-as-you-go basis, with payment via M-PESA, (xi) M-Shwari, which offers microloans through a linked bank account at CBA, is a more recent example. Since launching M-Shwari in November 2012, KSH 7.8 billion (approx. EUR 65.8 million) have been disbursed to about four million customers.

Besides the Kenyan M-PESA model,which is mostly a non-deposit-taking institution that only transmit money from person to person, person to business and person to government finance, since one of the core of financial inclusion is for capital accumulation, the Rwanda's SACCOs model becomes readily helpful for the Nigerian poor, especially, those in the

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Northern part of the country. Umurenge SACCO are member-based community savings and credit cooperatives operated and managed by locals that are known by the people. The introduction of Umurenge SACCO in a country like Rwanda with limited financial inclusion have ensured that more than 90% of the people now live within a 5 km radius of an Umurenge SACCOs. FinScope 2012 survey showed again that Rwandans are more likely to trust Umurenge SACCOs than commercial banks, especially in rural areas. Consequently, savings with Umurenge SACCO has significantly decreased in the number of people saving money at home, which in away, has proved to be an effective way of channeling more money into the formal financial system for economic activities.

Another model that can also help move the Nigerian Financial Inclusion programme is the Chinese model of rural financial institutions such as village and township banks (VTBs) and rural mutual credit cooperatives (RMCCs), as well as microcredit companies (MCCs), a new type of credit provider established between 2006 and 2008. The platforms are very flexible enough for legally sanctioned individuals to invest as a provider as an independent enterprise within a limited geographic sphere of operation. VTBs and MCCs can establish branches, while branches are not allowed for RMCCs. Specific activities for VTBs include accepting deposits; short-, medium-, and long-term loans; domestic settlements; bill acceptance and discount; interbank borrowing; bank card issuance; government bond underwriting; agent service of funds receipt/payment and insurance. In terms of governance structure, VTBs are independent enterprises and legal entities.

The Rural Mutual Credit Cooperatives (RMCCs), which are established to unite farmers, and to fill gaps in financial services, are also linked to villages or farmers' specialized cooperatives that handle members' deposits, loans and settlement, and buy and sell government debts and financial bonds. (World Bank (2018)

5.5 BRIDGING INFRASTRUCTURES GAP

Nigeria lacks the basic infrastructure to serve as backbone especially in the rural areas to bring in the unbanked rural dwellers and those in some remote sections of the urban centres. Deploying Digital Financial System (DFS) would require Mobile Network Operators (MNOs) to expand their coverage, and this is cost expensive except through an enhanced operating environment. Also, the financial institutions to establish village banks branches will require basic infrastructures, such as power, security, good roads and or railroads or air transportation. Unfortunately, the MNOs and Financial Institutions provide their own source of power through diesel generators, even at sub-stations, and at ATM stations, and have to therefore charge higher fees and interest charges, that deter the relative poor from accessing the financial products. According to Mckinsey & co, a global management consulting firm, Energy costs constitute a major chunk of network operating expense (OPEX) for mobile operators in Africa. For a typical tower site in Africa, the share of energy costs is as high as 40 percent of the overall network OPEX. An off-grid site consumes nearly 13,000 litres of diesel every year, at an average annual energy OPEX of over US$21,000 and adds nearly 35 metric tons of $CO2$ emissions to the environment.(Okojie, 2015). Specifically, IHS Towers, the largest mobile telecommunications infrastructure provider in Africa, that controls all 16,000 Base Transceiver Stations (BTS), popularly called base stations, belonging to all GSM companies in Nigeria spends about N 2.6 billion monthly on on diesel, to power the base stations. (Ihekwoaba, 2017). Resolving this gap would require government make these infrastructures as national emergency by must address the lapses in the telecommunications infrastructure in order to effectively reach consumers where they live. Consequently, the passage of the national critical infrastructure bill will enable the demarcation of telecommunications infrastructure as "national and critical," which should help deter vandalism. They also saw the need for the expansion of telecoms infrastructure to rural locations, or locations that do not yet have a proven business case for commercial investment. (David-West and Taiwo (2018)

6.0 CONCLUSIONS AND POLICY RECOMMENDATIONS

Financial inclusion promotes capital accumulation with resultant jobs creation that has capacity to reduce poverty and creates robust and sustainable welfare conditions for the population. While Nigeria have experimented with various financial inclusion strategies since 1976, including the recent 2012 Financial Inclusion Strategy, the country is still far from achieving its 80 percent financial inclusion by 2020, and also lags behind financial inclusion compared to some sub-saharan African countries. This is because Nigeria viewed financial inclusion more as a public good shouldered solely by government than an economic project with private sector participation that can empower the citizenry and the economy as a whole. More so, the various attempts have also failed to develop financial inclusion products that are amenable to the different demographics, especially those that are poor and illiterate within the core North with strong Islamic biases, that abhors western financial products. The poor performance is also attributable to poor infrastructure that can serve as incentives to private investors in this sector, especially the Mobile Network Operators for digital money transmission. This paper acknowledge that the 80 percent financial inclusion target by 2020 in all intents has become a mirage, as we approach 2020, the target year. As way forward at improving the performance, the paper recommends that CBN focuses its efforts at upscaling the financial inclusion of the core North that is visibly lagging behind the the South, in view of its predominant poor, illiterate and fundamental Islamic adherents, by developing financial products in indigenous languages, and Sharia compliant in order to capture core North. Given the role agriculture plays in the economy in terms of employment, the government must also expand the e-wallet agricultural digital platform into a mobile bank to allow for more financial transaction by the predominately smallholder farmers in the country. The government must also create necessary incentives to attract private sector participation in order to boost its financial inclusion efforts. Finally, the CBN should also consider taking a cue from the successful financial inclusion models in Kenya, Rwanda, and China in order to capture the poor and low income rural dwellers into the formal financial sector.

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