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FINANCIAL INCLUSION IN NIGERIA: AN OLD WINE IN A NEW BOTTLE

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Abstract

Financial inclusion strategy in Nigeria concerns about improving accessibility of adults to varieties of financial services and products that best meets their needs at affordable cost. This concern arises from the fact that about 39.2 million adult Nigerians representing 46.3% adult population are financially excluded and majority of them are women (NFIS, 2010). This paper attempts to review the previous initiatives by government towards bringing vast majority of adults Nigerians from the informal sector into national financial system, and then compare them with the current strategy with a view of finding whether they differed. Thus, the research questions are: what are the difference(s) between the previous and present strategy? What are the successes and failures of the past initiatives? How should the past experience be used to improve the present strategy? And what are the challenges confronting the current strategy? Although the paper is a review attempt, figures and percentages are used for analytical clarifications. The findings from this study indicated that there are no much differences between previous initiatives and this new strategy. Furthermore, the structural deformities in the economy that hinder the success of the past economic programmes and strategies will still affect the current financial inclusion strategy in Nigeria, if adequate care is not taking. Thus, the paper recommends that: Government should promote and restore confidence about banking and other financial system to rural people through adequate and effective sensitizations/workshop as well as strengthen the banking sector, government

must also tackle the lack and shortage of infrastructural facilities in the country and the current security challenges in the country should also be overcome.

Keywords: *Financial Inclusion, Strategies, Successes and Failures, Challenges, Government*

Background to the Study

Financial inclusion strategy is a United Nation initiative; it became an important policy framework, particularly following the global financial crisis of 2008-2009, where financial exclusion was identified as one of factor that precipitate the crisis. Consequently, several countries in the world considered it as a means of achieving long term comprehensive economic growth (Chakrabarty, 2012). Since then the strategy has become a global policy objective in many developed and developing economies such as United Kingdom, United states of American, France, China, South Korea and India. Financial inclusion strategy developed from the public policy perspective which concerns much about the fact that many people particularly, those living with a low income cannot access the mainstream financial services and products such as access to savings, credit, loans, insurances, payment and remittances facilities, bank accounts, etc which prevent such persons from participating effectively into the real economic activities (Saruparia, undated). Financial inclusion or inclusive financing has been defined as the delivery of financial services at affordable costs to sections of disadvantages and low income segments within the society, in a sharp contract with financial exclusion where such services are not available or affordable at less cost (Wikipedia, 2014). Thus, the prime objective of this strategy is to ensure the provision of banking and payment services to the whole population without discrimination.

In Nigeria, the history of financial inclusion has begun earlier than the formal launching and adoption of the initiative in October 2012 by the Central bank of Nigeria (CBN). Prior to that period successive governments in Nigeria at various time in the past had introduced several programmes targeting the financially excluded sections of the society. Particularly the rural adult population who constituted the largest number of financially excluded people, with the major aim of taking the banking services to rural areas with main goals of reducing poverty, increase employment opportunities and boosting the agricultural sector. Some of these programmes are rural banking system, Peoples Bank, Operation feed the Nation (OFN), Green Revolution (GR), Nigerian Bank of Commerce and Industry (NBCI), Nigerian Economic and Reconstruction fund (NERFUND), Family Economic Advancement Programme (FEAP), Nigerian Agricultural Credit

Guarantee Scheme Fund (ACGSF), Community Banking, and Microfinance Banking (Ikechukwu, 2012). Although, many of them were unable to see the light of the day and eventually, collapsed or scraped out due to problems and challenges they faced.

Statement of the Problem

The problem of this study is to evaluate financial inclusion strategy in Nigeria through comparing it with other similar programs undertaken by government in the past. This can enable the study to find out whether financial inclusion strategy has any different with previous governments' policies and programs targeted the financially excluded sections in the society. Therefore, the research questions this study intends to address are: is there any difference between the past and present initiatives? And what are the challenges for this new financial inclusion strategy in Nigeria?

Objectives of the Study

The main objective of this study is to review the successes and failures of some past governmental programs and strategies. Other specific objectives of this study are:

1. To compare previous programs, policies and strategies of government with financial inclusion strategy, and ascertain the level of how they are related,
2. To examine the differences and similarities between current financial inclusion strategy and previous strategies of government,
3. To offer policy suggestions on ways to improve the financial strategy in order to achieve its underlying objectives of introducing the program in Nigeria.

The paper is divided into six sections, after this introductory part which is section one, the next section is the review of the past programs and strategies of government, section three contains the overview of the financial inclusion strategy in Nigeria, section four is the methodology of the research. Section five concerns of the challenges of the financial inclusion approach. Finally, section six is the conclusion and recommendations.

Literature Review

Review of Past Government Initiatives

Agricultural Credit Guarantee Scheme Fund (ACGSF)

The scheme was established by act 20 of 1977 and started operations in 1998 with the initial take-up capital of N100 million subscribed by the federal government and Central bank in the ratio of 60:40, eventually the capital was increased to N3 billion. The sole purpose of the scheme was to provide cover in respect of loans granted for agricultural purpose. It was done to encourage commercial banks to increase loans given to agricultural sector including small scale rural dwellers. In the event of default the fund pays 75% of guaranteed loans when all forms of loan recovery were exhausted by the lending bank (CBN, 2000). An Interest Drawback Programme (IDP) which allows ACGS beneficiaries a 40 percent interest rebate upon timely repayment was also introduced in 2003 to boost the scheme. The maximum loan to be guaranteed was N100,000 for individuals and N1 million for cooperatives and corporate bodies. The figure was subsequently reviewed to a maximum of N1 million for individuals and N5 million for cooperatives. Collateral was required for loan above certain level. The amount of loans guaranteed by purpose under the scheme stood at N9,216.45 million in 2005 and N6,498.0 million in 2008 (CBN, 2009). But there was high evidence of diversion and most of the beneficiaries were large scale and educated farmers. The cumulative number and value of loans guaranteed under the scheme since inception stood at N803,264 and N62.05 billion respectively.

Commercial Agricultural Credit Scheme (CACS)

The Commercial Agriculture Credit Scheme (CACS) was established in 2009, to finance large ticket projects along the agricultural value chain. It is administered at a single digit interest rate of 9 percent to beneficiaries. State governments including the FCT can access a maximum of N1.0 billion each for on lending to farmers' cooperatives or other areas of their agricultural intervention. The scheme is managed by the CBN. To further increase the level of funding under CACS, a policy enhancement framework was approved by management of Central Bank to utilize the scheme's loan repayment proceeds for lending to agricultural projects. However, the exit date remains 2025. The cumulative amount disbursed under the scheme as at December 2013 stood at N225,738 billion to 304 projects (274 private projects and 30 state government including FCT) with an undisbursed balance of N0.169 billion. The scheme has positively affected the economy.

There were significant improvements in efficiency and capacity utilization, output and increase in jobs created. In the year 2013 alone 65,209 jobs were created by both the private and state government projects as a result of introduction of CACS. Cumulatively, CACS funded projects have led to the creation of 188,920 jobs made up of 7,213 skilled, 13,119 unskilled and 168,588 indirect jobs from inception in 2009 to December 2013. The increase in capacity utilization of the projects finance by CACS ranged from 35 percent to about 95 percent in poultry production, rice production (increased to 496,394 MT in 2013 from 496,000MT in 2012) and animal feed mills (over 60,300 tons per day) Similar schemes like the Agricultural credit support schemes were established with the subsidized interest rate borne by Central Bank in order to reduce cost of borrowing, government was the major funder of these schemes.

Mandating Branch Openings in Rural Locations

Mandating branch openings in rural locations is among the past strategies by government in enhancing financial inclusion in Nigeria. It was borne out of the CBN's Rural Banking Scheme or Programme where all commercial banks were mandated to have branches in rural areas with a view to facilitate banking services to the local populace and thereby incorporate them in the financial services beneficiaries in the country. The scheme was imposed on urban commercial banks under the following criteria as observed by Abdulraheem (2000); Establishment of institutions such as schools and health care facilities in such towns or villages, population range is used to determine the number of communities that require branches, lastly such areas experiencing considerable economic activities. The main objectives of Rural Banking Scheme included: cultivate banking habit among agrarian rural population, mobilization of savings from rural areas for the purpose of channeling same to the development of rural areas which could be achieved by establishing a diffused network of branches to all parts of the federation in order to enhance rapid and balanced development of the economy, Creation of credit by way of equity and loan for small-scale industries and entrepreneurs. Lastly, reduction of migration from rural to urban centres through the provision of gainful employment opportunities for rural dwellers.

The first and second phases of the scheme were completed between 1977-1980 and 1980-1983 respectively. There seem to be quite a dispute of scholarly opinion regarding the success or failure of rural banking scheme in Nigeria, as some like Fabayo (1987), Josnua (1992), C.B.N. (1998) and AbdulRasheed (2000) are of the opinion that the scheme was a success, while on the other hand, Uche (1999), Shilpa and Leora (2013) view the scheme as ineffective or at least far below expectations.

Peoples Bank

Peoples Banks of Nigeria was set up by Decree no 22 of 1990 with the mandate to provide credit to the under privileged Nigerians who are in the legitimate economic activities. It also accepted savings from such group and make repayment of such together with any interest thereon. The bank aimed at providing credit to the poor who cannot get credit from commercial banks due to high interest and collateral security. The bank was structured to provide credit of between N50 million and N2000 as working capital to indigent Nigerians. Government was the main funder of Peoples Bank and the banks succeeded in increasing the number of branches from 1 in 1990 to 278 in 1997.The success of Peoples Banks was however limited due to the fact that government was the major funder, similarly, corruption, diversion of funds, and mismanagement was evident in its activities. Secondly, most of the beneficiaries from the bank loans considered it as a bite from the national cake, hence in most cases did not even attempt to repay the loan owed to them. Moreover, the amounts of loans given were too small for the beneficiaries to cope with the challenges of the modern business world.

Even before then several attempts by various administration were made to make financial banking services attractive and affordable to all rural communities, to achieve this targeted objective many other groups were formulated like Directorate of foods, roads and rural infrastructure (DFRRI) and the better life programme for rural women by the government, despite introducing these agencies yet commercial banks could not service the credit needs of rural society that led the establishment of community banks

Community Banks

Community Bank was a self-sustaining financial institution owned and managed by the community or group of communities for the purpose of providing credit, deposit banking, and other financial services to its members largely on the basis of their mutual group responsibilities, self-recognition and merit. Community bank in Nigeria was first established in 1990 and the national board of community banks was set up in 1992 under Decree no.46 to promote, develop and generally supervise the activities of community banks. Community banks succeeded in increasing number of branches to over 1000 all over the country by 1992.

Also, it served as a good mechanism for credit mobilization and provision to people who were marginalized by modern banking. Community banks de-emphasized assets, collaterals and thus more people from the grassroots were focus. Many petty traders, hawkers, artisans and small-scale processors have benefitted from community banks loans and were able to turn around their businesses. The most interesting thing about community banks is that they were run by the poor rather than run by the rich. But despite their success, community banks suffered from certain challenges. They have weak financial position and this affect their ability to compete with deposit money banks in deposit mobilization from big clients. Secondly, the frequent liquidation of deposit money banks before re-capitalization seriously affected community banks. Many lost their fund in the event of failures because they keep their excess deposit with commercial banks. Thirdly, interest charged by community banks was so high in fact higher than what deposit money banks charged. For example, while deposit money banks charged 29% interest in 1992 community banks charged as high as 36%. Other problem according to Gistarea (2013) was illiteracy in the rural areas in which majority of the people failed to appreciate or acknowledge the importance of these community banks.

Microfinance Banking

Owing to the failure of community banks to achieve they targeted objectives, microfinance banking was initiated, the origin of microfinance banking can be traced to Bangladesh in the mid-1970s, since then many countries in the world began adopting the model as a financing model, which focuses more on poverty reduction and reduced unemployment as well as enhancing rural development (Ikechukwu, 2012). Nigeria as part of the global economies made an attempt in that aspect by lunching a scheme or strategy in 2005 known as microfinance policy, regulatory & supervising framework. This considering the fact that in Nigeria, the formal financial system provides services to only about 35% of the economically poor while the remaining 65% are excluded from access to financial services (CBN, 2006-2007) whereas The financially excluded were served by the informal financial sector and this limit the ability of the CBN to exercise monetary control effectively in the economy. The major target of the policy was the provision of services such as credit, savings and payment services to the financially excluded economically active poor society, especially women residing in the urban, semi-urban and rural areas (CBN, 2011), who were considered excluded from financing by conventional banks, as this will bring the informal financial sector into national financial system. In spite of the fact that those people who are financially excluded are not without skills, ideas and willingness to work (Ikechukwu, 2012).

The microfinance Banks (MFBs) were mandated to began operation in 2007 after securing licensed, therefore, the existing community Banks and Non Governmental Organizations'(NGO) microfinance institutions (MFI) that met the conditions stated by CBN for licensing were permitted to metamorphosed into microfinance Banks. The policy recorded a significant and giant stride since inception in December 2005, these include intensified level of awareness among stakeholders in Nigeria, increased number of licensed MFBs to 866 and enhancing capacity building, others are increases demanding for financial services such as credit, saving, payment service, financial and non financial advises among others (CBN, 2011). Microfinance Banking in Nigeria confronts a lot of challenges which included (Ikechukwu, 2012): (a) Paucity of infrastructural facilities such as good road networks in rural areas, constant and stable electricity and water supply (b) Islamic perception of interest, as it forbidden usury, this is prevalence particularly in the northern part of Nigeria (c) Poor legal & regulatory framework (d) Poor Banking culture among the rural society and their heavy reliance on informal sources of finance (e) Dearth of qualified skills manpower following which most of these Banks resorted to recruit staff from the failed or downsized commercial Banks after the banking system consolidation (f) lack of confidence on the Banking sector resulted from withdrawing the licenses of 224 community Banks in 2010 (g)unwillingness of the existing NGO-MFI to convert to microfinance Banks due to fears that the present regulation might hamper their familiarized operational practices, couple with lack of sufficient fund by these MFI to meet the request of clients (CBN, 2011). These numerous challenges necessitated the reviewed of microfinance policy in March 2011.

In view of the need to fully incorporate SMEs in the initiative and further complement financial inclusion effort, the CBN has expanded the scope of its fund to include SMEs thus naming the fund 'Micro, small and medium Enterprises Development Fund' with the aim of stimulating and encouraging full participation by both urban and rural people. The fund would be disbursed through microfinance banks in the country. From this background, one can proudly say that, financial inclusion is at the heart of MFBs in Nigeria. This claim is confirmed by the fact that the first policy objective of MFB is to make financial services accessible to a large segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services CBN (2005).

Overview of Financial Inclusion Strategy

The Central Bank of Nigeria (CBN) joined other countries in lunching financial Inclusion Strategy in October, 2012, with the aim to reduce the financial exclusion rate of Nigerians from 46.3% (representing about 39.2 million adult Nigerians of the 84.7 million adult population) in 2010 to 20% by the year 2020 as a global target to all countries (Nigeria microfinance, 2013). Financial inclusion is achieved when adults have easy access to a broader range of formal financial services to meets their needs at an affordable cost. The major objective of this strategy is to increase the formal use of financial services from 36.3% of the adult population in 2010 to 70% by the year 2020. Access to and use of financial services in Nigeria is low comparing with other countries in Africa such as South Africa (68%), Kenya (41%) and Namibia (45%). The target of the strategy is to increase the value and amount of the following indicators: payments and savings services, credit, insurance and pensions, others are increase number of units per 100,000 adults on commercial bank branches, microfinance bank branches, Automatic Teller Machines (ATMs), POS and mobile agents. The stakeholders involved in ensuring the achieving of financial inclusion are Banks (deposit money banks and microfinance banks etc), other financial institutions (include Pension fund administrators, discounts houses), the insurance industry(insurance companies and agents), financial regulators(CBN, NDIC, NCC, Pencom), technology/telecommunication firms(ATM and mobile service providers), public institutions (government agencies and ministries, postal services)and development partners (International finance agencies, donor institutions etc) (NFIS,2012).

Methodology

This research work is qualitative, as it attempts to review the previous policies and strategies towards improving the accessibility of financial services to the larger part of the Nigerian population. However, for analytical clarifications a secondary data is used, and the data are sourced from the Central Bank of Nigeria Publications, National financial inclusion strategy web side, and other major sources. Moreover, figures and percentages are used to further evaluate the programs in terms of their achievements and failures over selected period of time.

Challenges of FIS in Nigeria

The current financial inclusion strategy is not without its own challenges, some of these challenges as point out by the former Central Bank governor include "long distance access points, cumbersome eligibility requirements, low financial literacy and high costs of financial services" (Nigeria microfinance, 2013). Other important challenge to the present strategy is that it does not include measures to tackle religious sentiment against some financial product, interest on loans in particular, since products are designed based on clients' need, thus, non-interest windows/ products will become acceptable and patronage especially in the northern part of Muslims-dominated areas.

Moreover, tackling the decay and dilapidated physical infrastructures in both rural and urban centers, these include lack of good road network linking the rural areas with the urban centres, effective communication network, and constant and stable electricity supply as they negatively affected the past governmental effort to that regards. Present security situation such as Boko-Haram threat, Kidnapping and Armed Robbery are another serious challenges towards the success of this program, because without conducive and enable environment no right-sensed and responsible investor(s) would come to invest into the private sector, and without vibrant private sector investment, the financial products and services cannot be adequately and effectively provided. Similarly, Corruption is pervasive and considered to be a cankerworm as it hampers the growth and development of any governmental programmes in the past. Others include irregular income, lack of employment, low level of literacy, long distance financial access points, high cost of financial services, inappropriate financial products and paucity of trust in financial services providers (NFIS, 2012).

Conclusion

The present strategy (Financial inclusion) covers a wider scope in terms of access to financial services, such as pension and insurance as well as the modern Banking system of operations including mobile banking, post-office, POS etc. In contrast to the previous strategies which concerned much about increases provision of savings and credits facilities to the poor and low income that are more traditional in nature. The conclusion is that the objectives of the current financial inclusion strategy has no much difference with the previous effort, only that the financial inclusion strategy covers a large area compare with the past initiatives and strategies. Similarly, the challenges confronted the past strategies will still played a significant role in undermining the effort of the current strategy towards achieving its targeted objective, unless if adequate measures are put in place to overcome the identified challenges.

Recommendations

This paper recommends that for the financial inclusion strategy to be successful adequate steps must be taken to restore peoples' confidence to the banking sector that would promote trust and patronage of financial services by the poor, the good approach might be a conditional cash transfer to poor households especially women. Also the condition of our physical infrastructural facilities should be improve to march with the modern world, the government must create awareness about the program most especially to rural people and security situation in the country has to be improve. In short, several other challenges of the past strategies must be tackled to ensure the success of this program

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