



Financial Inclusion in Nigeria: An Evaluation of the Progress, Challenges and Trend

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ABSTRACT

The gap between the financially reached and the unreached (banked and unbanked) is enormous in Nigeria even after 58 years of independence and 7 years of launching the Nigeria National Financial inclusion strategy, bulk of the adult population still remains financially excluded. Despite the progress made, the financial exclusion rate stood at 34.5% in 2018 from 46.3% in 2010. With this statistics, it shows that Nigeria as a nation still operates with large volume of physical cash for financial transaction. The importance of financially including the numbers of Nigeria without access to financial services is informed by the potential of accumulating and mobilizing bulk of deposits or saving outside the banking system which will form part of investible funds that will promote productive activity as well as leads to inclusive growth. This paper explores the state of financial inclusion in Nigeria, the progress made, barriers to financial inclusion and its potential impact on the Nigerian economy. The paper discovered and identified that the main challenges to financial inclusion remains high rate poverty among Nigerians, institutional exclusion and the poor's financial behavior. These challenges are responsible for the shallow depth of financial inclusion in Nigeria. Therefore, we suggest that effort to grow the Nigeria economy should be intensified with the intent of creating jobs for millions of the poor rural dwellers while the gap between the financially excluded and reached can further be bridge by the innovation of internet banking, prepaid cards, debit/credit cards and mobile money.

1. INTRODUCTION

The Nigerian Government in 2012 launched the Nigerian National Financial Inclusion Strategy (NFIS) with the sole aim of reducing the millions of people excluded from formal financial services from 46.3% to 20% by the year 2020 (NFIS, 2012). By including the numbers of Nigeria without access to financial services have the potential of accumulating and mobilizing bulk of deposits or saving

outside the banking system which will form part of investible funds that will promote productive activity as well as leads to inclusive growth. According to Okoye, L.U. Adetiloye, K.A., Erin, O, & Modebe, N.J. (2017) and Martinez (2011) access to finance can stimulate inclusive growth when such funds are readily available and affordable to various classes of economic agents for productive and economic ventures.

In real terms, the gap between the financially reached and the unreached (banked and unbanked) is enormous in Nigeria even after 58 years of independence and 7 years of launching the Nigeria National Financial inclusion strategy a bulk section of the adult population still remains financially excluded. Despite the progress made, the financial exclusion rate stood at 34.5% in 2018 from 46.3% in 2010 (EFInA 2018). With this statistics, it shows that Nigeria as a nation still operate with large volume of physical cash for financial transaction. Thus, the overall goal of financial inclusion in Nigeria is to reduce the adult financial exclusion rates to 20% by 2020 which to us is unachievable following the lack of policy by the Nigeria Government for mobilization of savings across all sectors and region of the most populous country in Africa. For us, most policies on ground are intervention programmes geared towards enhancement of credit which is still yet to yield desired results (NFIS 2012).

Nevertheless, available statistics shows that the Nigeria economy has a population of 168million people with 99.6million people falling under the adult class (EFInA, 2018). The records further reveals that 39.2 million people i.e. 46.3% of the adult population do not have access to formal financial products and services in 2010. In 2014, the exclusion rate declined to 41.6% i.e. 40.1 million people excluded from banking and financial products while in 2018 the exclusion stood at 36.8% i.e. 36.6 million adult Nigerians were excluded from the system. Similarly, Nigerian adults having access to any other formal channel such as microfinance institutions or insurance firms stood at 6.3% (5.3 million) in 2010,

10.5% (9.2million) in 2012;12.3% (11.5million) in 2014, 10.3% (10.0 million)in 2016 and 9.8% (8.9 million) in 2018 (EFFInA 2018). Also the percentage of Nigerian adults who have access to informal financial services stood at 17.4% (14.8 million) in 2010,17.3% (15.2 million) in 2012; 11.9% (11.3 million) in 2014, 9.8% (9.4 million) in 2016 and stood at 14.6% (14.6 million) in 2018 while the rate of financially excluded adult Nigerians fell marginally from 39.7% (34.9 million) in 2012 to 39.5% (36.9 million) in 2014. In total, the number of adult Nigerians who were financially excluded actually raised from 34.9 million in 2012 to 40.1 million in 2016 (CBN 2018).

However, the interest derives from the recognition that, despite progress, large segments of the population, as well as the corporate sector, are left out of financial services (Hannig & Jansen 2010). The gaps in access, use, and quality of savings accounts in financial institutions, and in the availability of credit and insurance products among different segments of the economy are still large (World Bank, 2014; Demirgüç-Kunt et al 2015 and Achugamonu, Taiwo, Ikpefan, Olurinola, Okorie, 2016). In Nigeria, recent estimates suggest that more than half of the poorest 37 percent are without accounts and 35 percent of small firms face difficulties accessing formal financial services (EFFInA 2018). Also, there are large gaps in access to financial services between the rich and poor, urban and rural dwellers, and men and women in Nigeria. Armed with recently available data and statistics on access to and use of financial services, this paper reviews the progress, challenges and the way forward for financial inclusion in Nigeria.

2. Products of Financial Inclusion in Nigeria

Table 2.1 Score Sheet on National Financial Inclusion

	Focus Areas	2010	2012	2014	2016	2018	2020	Variance
% of Total Adult Population	Payment	22%	20%	24%	38%	40%	70%	-30%
	Savings	24%	25%	32%	36%	24%	60%	-36%
	Credit	2%	2%	3%	3%	2%	40%	-38%
	Insurance	1%	3%	1%	2%	2%	40%	-38%
	Pension	5%	2%	5%	7%	8%	40%	-32%
	Financial Exclusion Rate	46.3%	39.7%	39.5%	41.6%	36.8%	20%	-16.8%

Source: EFInA Survey, (2018)

Electronic Payments

Our concern here is to ascertain the percentage of adult population that has transaction account with a regulated financial institution or that made an electronic payment through a regulated financial institution in the last five years of this initiative. Available statistics shows that 22% in 2010, 20% in 2012, 24% in 2014, 38% in 2016 and 40% in 2018 have transaction accounts or made an

electronic payment through a regulated medium in the last five years (EFInA, 2018).However, with this progress made it is not clear whether the target of 70 per cent of the Nigerian adult population having and using an electronic payment product will be achieved by 2020.

Savings

Similar to electronic payments, the percentage number of adult population that has a savings-related accounts with a regulated financial institution increased by 24% in 2010; 25% in 2012; 32% in 2014; 36% in 2016 and declined to 24% in 2018 (EFInA, 2018). With this development, it is not clear whether the 2020 target of 60% adult population having savings related product at regulated financial institution will be achievable due to the challenges of a lack of unique identification of customers and data constraints at the time of writing.

Credit

The credit product of financial inclusion has to do with the percentage of adult population that has a credit product through a regulated financial institution. Available record shows that the number of credit accounts maintained an irregular trend. In between 2010 and 2013 it was 2%, it rose to 3% in 2014 and 2016 and in 2018 it declined to 2% (EFInA, 2018). With this trend, the target of 40 per cent of the adult population using a credit product at a formal financial institution will not be achievable by 2020.

Insurance

An assessment on the achievement of the insurance target was quiet low under review period. The data provided reveal that 3% adult Nigerians have insurance policy in 2012 while it declined to 2% in 2018. The big question before us is that can we achieve the 40% target of Nigerian adult population by 2020.

Pensions

The number of adult Nigerians registered with a regulated pension scheme increased from 5% in 2014 to 7% in 2016 and 8% in 2018 respectively. The percentage of adult Nigerians registered in a regulated pension scheme went up from 7.0 to 8 per cent over the period under review. While the trend is positive, is it possible that the 2020 target of 40 per cent enrolment of adult Nigerians will be achievable?

3 Channels Promoting Financial Inclusion in Nigeria

Commercial Bank Branches

The number of commercial bank branches decreased marginally from 5,508 to 5,462 branches between 2014 and 2015. Relative to the adult population, there were 5.7 branches per 100,000 adults in Nigeria as at December 2015, compared with 5.9 branches per 100,000 adults as at December 2014. Comparing the achieved value with the 2020 target of 7.5 branches per 100,000 adults by 2015, the actual status is not on track. Currently 5.5 per 100,000 people have been achieved for 2016. Furthermore it reveals that the number of bank branches has maintained a slow growth since 2011. This

slowdown is the result of less focus on branch growth due to increased use of non-branch channels (CBN, 2012).

Microfinance Bank Branches

Although the number of microfinance bank branches increased by 120 or 5.7 per cent between 2014 and 2015, the number of microfinance bank branches per 100,000 adults remained at 2.3 between the period 2014 and 2015. Compared to the 2015 target of 4.5 microfinance bank branches per 100,000 adults, the achieved value was only slightly more than half of the target. However, the current report shows that in the microfinance banking subsector, growth in bank branches has remained flat just as for deposit money banks. The 2020 target is set at 5 MFB branches per 100,000 adults. The target was retained because of a shift in emphasis to branchless banking platforms (CBN, 2018).

Automated Teller Machines (ATMs)

The number of ATMs in Nigeria increased by 517 or 3.2 per cent from 2014 to 2015, while the number of ATMs per 100,000 adults grew marginally from 17.0 to 17.1(CBN, 2018). As the actually achieved value was only about 40 per cent of the target, the 2015 target of the ATM key performance indicator (KPI) was not met in 2015 (CBN, 2018). However, 2020 target for ATM deployment is set at 203 ATMs per 100,000 adults. The proposed target is aligned with that defined for Cashless Nigeria in 2015 but available statistics reveals that the current status of ATM per 100,000 adults stood at 17.5 ATM as at 2016 (CBN, 2018).

Point-of-Sale (PoS) Devices

For the computation of the PoS devices KPI, only deployed PoS terminals were considered. Based on this narrower definition, there were 116,868 POS devices as at December 2015, compared to 82,549 deployed devices as at December 2014. In terms of PoS devices per 100,000 adults, the value increased by 37.6 per cent from 88.3 to 121.5. While this was only 27.5 per cent of the 2015 target of 442.6 PoS devices per 100,000 adults, the status is not fully clear as other PoS devices, such as mobile phones, were not captured. Furthermore, the target for POS and mPOS is set at 200 POS devices per 100,000 adults by year 2020. The geographical distribution of the devices is expected to cover the regions with the highest exclusion rates which are the North East and North West. However, currently 76 pos per 100,000 were achieved for the 2016 (CBN, 2018).

Agents

As at December 2015, there were 688 bank agents at three financial institutions. Additionally, the Geospatial Mapping Survey of financial access points captured

3,567 agent locations which were engaging in mobile money activities as at April 2015. While based on these numbers, the 2015 target of 31.0 agents per 100,000 adults would not have been met; a complete assessment cannot be made (CBN, 2018). This is because data on the number of mobile money agents as at December 2015 was not fully available from mobile money operators. Also, agents were not uniquely identifiable across financial institutions and mobile money operators. Recently, the strategy seeks to grow the Agent network from 10 Agents per 100,000 Adults in 2016 to 476 Agents per 100,000 Adults in 2020. This is expected to be driven by several initiatives in the financial sector aimed at bringing financial services closer to the un-served and underserved using non-physical branch platforms (CBN, 2018).

4. Challenges to Financial Inclusion in Nigeria

In Nigeria, access to financial services has remained a major challenge to economic development and lifting people out of poverty cycle. The reasons commonly cited for this state of affairs include:

- i **Poverty:** This is state where an individual or family is living below one dollar per day. In other words, poverty is hunger. It is lack of shelter, being sick and not able to see a doctor. Poverty is about not having enough money to meet basic needs including food, clothing and shelter. The survey by EFINA (2018) shows that 64.9 percent of the unbanked population of 60.1 million cannot afford to have access to financial products and services both formal and informal in Nigeria. Furthermore, we discovered that 35 percent of the exclusion population have irregular income, 20 percent do not have a paid job. 19 percent could not afford the cost to be financially included.
- ii **Institutional Exclusion:** Institutional exclusion is another challenge to financial institution in Nigeria. By this, we mean not meeting the basic requirement to have a bank account. EFINA (2018) document that 23 percent of 60.1 million financial excluded Nigerians could not have access to financial products or services because banks and other financial institutions are too far from them, while 20 percent of the unbanked population are basically illiterate i.e. cannot read and write or cannot withstand the rigorous process and documentation involved in either opening bank account, withdrawing of cash or getting of other financial services and products.
- iii **Attitude/Perceptions:** Nigerians' attitudes and perception about financial product and services is such that they prefer keeping cash at home than taking it to the bank. This has affected their financial behavior and as such hamper the drive for financial inclusion. The EFINA (2018) reveals

that 23.6 unbanked populations in Nigeria prefer to keep cash at home and do not have reasons to have any financial product or services.

- iv **Infrastructure Deficit:** Finance and its services have gone digital, as such it requires adequate infrastructure to drive financial inclusion. Since the advent of agency/mobile banking in Nigeria, technology is seen as an alternative delivery channels to quickly reach to the unbanked population. But the truth remains that inadequate infrastructure has left majority of the people very far from the financial service points thus excluding them from access to financial products and services.
- v **High reliance on cash:** The dominance of liquid cash in the lives of the poor doesn't just make it harder for them to manage their finances; it also perpetuates their marginalization from the formal economy by making it more expensive to serve them (Radcliffe & Voorhies, 2012). Mas (2012) argue that financial inclusion is the process of bridging three clouds: 1) a physical cash cloud which is the legacy financial system where most poor people operate today; 2) a digital cloud where money is stored in a virtual account; and 3) a psychological cloud (i.e. the brain) through which people interpret and plan their financial lives. Connecting the physical and digital clouds unlocks "access" while connecting the digital and psychological clouds unlocks "usage."

5. CONCLUSION

Financial inclusion is an indispensable tool for economic development and poverty reduction in Nigeria. However, despite overwhelming evidence showing that financial inclusion has significantly contributed to the lifting from poverty of the poor and low-income earners, there is still a considerable gap in access to formal financial services in Nigeria. Unlike developed economies where the poor have financial products suited to their needs, the poor in emerging economies have very narrow options (Karlan and Murdoch, 2009).

Despite the difficult and expensive nature of building bank branches in all rural locations in Nigeria, there are several innovative and less costly means with which financial service providers can bridge the gap between financially reached and unreached. They include internet banking, prepaid cards, debit/credit cards and mobile money. However, considering the real constraints (distance or inaccessibility to banks, literacy and lack of awareness, complexity and high cost of banking products, etc.) facing the poor and unbanked in their quest to access formal financial services, mobile money appears to be the most promising and sustainable means to further deepen access to formal financial

services. Mobile phones are all-over and basic mobile phones can support mobile money services in Nigeria with help of communication infrastructure on ground. Mas and Kumar (2008) and Shrier, Canale and Pentland (2016) have identified benefits of mobile money services as one that is capable of reducing cost of delivering financial services, increased penetration, and the ability to sell various services to the unbanked. With the right business model and regulatory policies, mobile money can stimulate increased savings by the poor, support access to other financial services such as credit and insurance, facilitate remittances (send and receive) with less risk, and conduct other financial transactions. All in all, mobile money will increase participation in economic activities and ultimately enhance economic development.

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