Effectiveness of Financial Inclusion Strategy in Nigeria

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Abstract

The paper reviews the progress made on financial inclusion drive in Nigeria with emphasis on the country's National Financial Inclusion Strategy (NFIS) that was launched in 2012.The discussion includes the achievements, the challenges encountered and the prospects of realizing the set target of reducing national financial exclusion from 46.3 percent in 2010 to 20.0 percent by 2020. Research questions were formulated to guide the strategic assessment at various levels; national, sub-national, and nine key performance indicators (KPIs). In a descriptive framework based on data covering 2011 to 2014 sourced largely from the Central Bank of Nigeria and Global Findex database, the results indicate that the national financial exclusion declined only marginally from 39.7 percent in 2012 to 39.5 per cent in 2014, with more of the female adult population excluded than male. Two geopolitical zones worst hit by insecurity and environmental pollution issues recorded relatively high exclusion during the period. Out of the nine KPIs evaluated only one had so far nearly met the 2020 target. Thus, with only a marginal improvement in national financial inclusion recorded during the period, concerted strategy implementation of the NFIS remains critically imperative, especially in the areas of maintaining social peace and security coupled with robust mobile money accounts penetration and grassroots financial literacy. The implications of these findings for sustainable financial sector reforms, human capital development, and future research are covered.

Keywords: *Financial Inclusion Products (FIPs), Financial Markets and Institutions, Financial Strategy, Key Performance Indicators (KPIs), Nigeria, Theory of Change.*

JEL Classification: *G20, 38, O31, 55, R51*

"If real development is to take place, the people have to be involved."

- Julius Kambarage Nyerere

Introduction

The global importance attached to financial inclusion is underscored by the award of the Nobel Peace Prize to Professor Mohammad Yunus and his Grameen Bank. Over half of the world's population still does not have access to basic financial services and is shut out; 60 percent of people in poor countries have no access to basic financial services and therefore excluded from formal financial system, thereby constraining global capacity for inclusive growth (Frisby, 2014).Inclusive growth refers to economic growth that is broad-based and ensures the widest possible benefits to a nation's citizenry (Ozughalu & Ogwumike, 2015). Inclusiveness is regarded as pivotal to any successful growth strategy since in a veritable inclusive economy; economic activities and structures of production involve overwhelmingly greater section of a nation's workforce. Thus renewed concerns about implementation of financial inclusion strategy are a recent development in the regulation and supervision of Banks in Nigeria (Umoh, 2016). Various policies targeted at financial inclusion has so far not had the desired impact on the real sector of the Nigerian economy due to lack of access to finance, hence Nigeria still ranks low among its peers in financial inclusion. Financial inclusion is higher in high-income countries than developing countries; while 89 percent of adults in the former have accounts at a formal financial institution, only 41 percent of the latter do (Ajakaiye, 2013). While 69 percent of adult Nigerians are formally served, only 44 percent are financially included; for sustainable financial market development, merely having financial transactions without ensuring statistically capturable or monitorable transactions undermines the whole beneficial purpose of financial inclusion initiatives (Demirguc-Kunt, 2015). This demands rigorous research into the strategy dimension of financial inclusion strategies of developing countries, if such economies desire to catch up with the more developed world.

More than half of the Nigerian adult population were reportedly financially excluded in 20014 (Demirguc-Kunt *et al*, 2015). As part of her efforts to address the high rate of financial exclusion, Nigeria has designed a National Financial Inclusion Strategy to increase the number of Nigerians that are included in the formal financial market from 30 percent to 70 percent by the year 2020. To this end, a number of strategic measures have been documented and embarked upon in Nigerian to enhance financial inclusion. These include know-your-customer (KYC), agent banking framework, national financial literacy programme, cashless policy, and mobile payment system, and establishing linkages between commercial banks, governments, and microfinance banks for funding micro, small and medium enterprises (MSMEs), as well as diverse credit enhancement schemes and programmes, among other measures.

Against the forgoing backdrop, questions remain as to whether the measures taken so far under the NFIS have impacted positively on the capacity to achieve the set 2020 targets. Specifically, what are the achievements of Nigeria's National Financial Inclusion Strategy (NFIS) sub-nationally or geo-politically? How has the NFIS performed in the critical dimensions of Gender, Payments, Savings, and Credit? Three to five years into the NFIS, how has the strategy worked generally? This research is designed to address these concerns so that findings could trigger desirable policy reforms, programmes, new initiatives, and doubling-up policy actions towards attaining speedy inclusive growth and sustainable development of Africa's most populous nation. Additionally, it is important to track changes in financial inclusion to help in designing further interventions and innovations such as the M-PESA in Kenya that has revolutionized the country's financial inclusion landscape.

Statement of the Problem

Developing countries like Nigeria are probably not lacking in well-conceived economic policies and strategy formulation; the problem has always bordered on policy implementation. There have been some increasing concerns that the pattern of economic development in developing countries like Nigeria is often skewed towards a few rich people, leaving out the vast majority of the weaker sections of the society, whereas and economy cannot thrive sustainably on a fraction of its citizens while excluding the others (Aduda & Kalunda, 2012). When financial development is rather exclusive, economic growth is dampened and real development stalled (Cull & Demirguc-Kunt, 2012). Unfortunately, whereas strategy execution, monitoring and evaluation form a very critical part of any strategy (Sull, 2015), research to date has not given adequate attention to the concept of financial inclusion in terms of strategy formulation and actual policy implementation in Nigeria. Focusing more on macroeconomics of financial inclusion, existing studies on financial inclusion in general have not explored the subject from strategic management angle – assessing the extent to which national initiatives and programmes and strategies have attained their set targets, with a view to recommending policies for desirable corrections, fine-tuning or emphasis. A recent attempt at chronicling the Central Bank of Nigeria (CBN)'s role and efforts in the implementation of NFIS since inception up to the first half of 2015 (Umoh, 2016) could not go far as to detailing the extent to which Africa' largest economy has moved towards attaining the 2020 financial inclusion target, hence, the present contribution.

Significance of the Study

The fall in oil prices and other commodities with attendant disruption of fiscal cash flows and monetary instability have made diversification and inclusive growth imperative. Nigeria no longer enjoys the windfalls of oil revenue of the 1970s and 80s, hence the need to ensure that all hands are on deck to revive the economy. It therefore behooves Nigeria to take issue of financial inclusion in the development of the economic very seriously. To this end, the financial sector development is generally regarded as a prerequisite to sustainable economic growth and development in terms of helping to meet people's needs for savings, investment, payment, credit and risk management which is particularly beneficial to the poor and the generally disadvantaged groups in the society (Ajakaiye, 2013; Umoh, 2016). If the financial sector is to effectively play its critical financial intermediation role effectively and efficiently, financial inclusion research is imperative; much more so in the Nigerian context, bearing in mind that the concept of financial inclusion varies with the level of countries economic development or geographic locations (Aduda & Kalunda, 2012). This is to ensure that financial inclusion strategy and policy reforms are based on reliable and comprehensive data that reflect the critical strategic dimensions of the subject. In a 170 million-people economy with large low-income population, financial inclusion is central to its sustainability, stimulating economic activity and improvement in the people's overall standard of living. Thus, measuring and tracking financial inclusion is crucial for identifying reform priorities and incentives as well as identifying strategic milestones progress attained overtime.

There is therefore a need to identify and evaluate the progress that has been made over the recent past so as to direct the attention of policy makers, change agents, consultants, reengineering managers and other stakeholders appropriately. Findings from the present study are therefore expected to help the Government of Nigeria in implementing policies that will enhance financial inclusion, thereby fostering economic growth and development.

Objectives of the Study

The main objective of this paper is to describe how financial inclusion has changed over time in Nigeria since the country's National Financial Inclusion Strategy (NFIS) was launched in 2012, bearing in mind recent global developments and growing emphasis on sustainable inclusive development. In essence, the research was designed to gauge the effectiveness of the NFIS initiatives in Nigeria towards increasing the number of adults included in the formal financial sector to 70 percent by the year 2020.

Specifically, the study aimed to:

I. Find out the achievements Nigeria's National Financial Inclusion Strategy (NFIS) at geo-politically.

II. Ascertain the performance of the NFIS in terms of Gender, Payments, Savings, and Credit.

III. Find out the overall extent of financial inclusion in Nigeria with reference to her NFIS

Measuring and tracking financial inclusion is crucial for identifying specific areas where actions need to be doubled up to achieve the NFIS targets by the year 2020.

This paper is organized into five parts. Part one deals with introduction of the study, Part two conceptual, theoretical and empirical literature review including aspects of Nigeria's National Financial Inclusion Strategy (NFIS), Part three methodology, Part four discussion of results and summary of findings, while finally Part five provides some policy recommendations and concludes the paper.

Ii. Literature Review - Concepts and Perspectives of Financial Inclusion

Financial Inclusion

There are many different views on what 'financial inclusion' means and entails in the literature, but the key aspects of access to formal financial services - payments, savings, insurance, credit, and so on – by vulnerable /low income groups at an affordable cost, are fairly unanimous. Usage and accessibility issues of affordability (fair price), convenience ("no frills account"), timeliness, adequacy, and product knowledge, are among the issues emphasized by many definitions of financial inclusion. Poverty eradication and inclusiveness are the core concerns of financial inclusion. Thus, financial inclusion has been described as enhancing access to financial services at affordable cost to the unbanked (Umoh, 2016). The issue of product knowledge in today's digital era has assumed increasing importance hence the critical role of financial literacy, counseling and capacity-development in enhancing financial penetration at the grassroots. For example, affordability does not mean that operators should ignore risks when deciding to offer services, but that efforts should be made to ensure that financial services are available to the needing populace at affordable costs and sustainably. Basically aimed at benefiting the poor majority who do not use formal financial services, financial inclusion (or banking sector outreach) has been defined broadly as the process of availing an array of required financial services at a fair price, at the right place, form and time, and without any form of discrimination to all members of the society. In the final analysis, for appreciable financial inclusion to happen, the vast majority of the adult population must have the capacity, skills, knowledge and understanding to make the best use of formal financial products and services (Aduda & Kalunda, 2012).

Scope of Financial Inclusion – Great Opportunities for Business Innovation

Full financial inclusion implies offering every household with access to a bouquet of formal financial services including the following, among others: Bank accounts; Savings; Insurance; Payments / remittances; Affordable credit; Financial counseling

These services are traditionally provided by wide range financial institutions such as commercial banks, microfinance institutions, credit unions, mobile network operators, among others. It is widely acknowledged that, in the world of supply-led business models, financial providers often perceive poor customers to be high risk and low profit whereas the true situation, as pointed out by Mercy Corps

(2016) and other development practitioners may be that we do not have enough financial services providers who are versed in adequately conceptualizing, mitigating, marketing and managing suitable financial products and services for the poor. Rich and poor customers value dependable and quick access to financial services as much as the cost. Admittedly, poorer or vulnerable populations will have limited ability to meet the formal institutions' standard requirements such as collateral, KYC identification, cash flow or verifiable credit history, but this reality only goes to provide the discerning provider with humongous opportunities to develop creative FIPs (financial inclusion products) that address the core financial needs of vulnerable sections of the society, delivered in age-, gender-, and context-suitable and scalable manner. And this is where microfinance fits into financial inclusion.

The concept of microfinance was pioneered in Bangladesh by Professor Muhammad Yunus, who started by lending $27 of his own money to 42 female entrepreneurs who could not get loans from the banks. Overtime a number of leading companies have adapted nonprofit business models to serve the bottom of the pyramid across the world (Yunus, *et al*, 2015).

Causes and Effects of Financial Exclusion

The literature (Aduda & Kalunda, 2012; Aigbokun, 2013; Ozughalu & Ogwumike, 2015) suggests that financial exclusion – being excluded from the formal financial system complete with all the financial services that are suitable to people's needs and enable them to lead a normal life in the society in which they belong - leads to or is associated with loss of opportunity to grow the economy, retarded economic growth, increased poverty levels, high information and transaction costs in the financial system, an unemployment. The main reasons behind financial exclusion include illiteracy or inadequate knowledge about the role and function of banks, banking products / services, and interest rates; lack of awareness of banking terms and conditions; high transaction costs; lack of acceptable identifier; access issues such as proximity, cost, marketing bias, and negative experiences. The consequences of financial inclusion, as indicated in Aduda and Kalunda (2012), Ozughalu and Ogwumike (2015, among others, include: low savings, slow or no growth, low business investment, breeding social exclusion, which heightens social classes, divisions, polarized societies that are unhealthy for the economy, and the fact that, in the current dynamic digital world, those not having access to essential financial services are likely to suffer more serious consequences now than in the past.

Multidimensionality and Dynamism of Financial Inclusion

Following Aduda and Kalunda (2012) and others, financial inclusion concept is generally regarded as multidimensional and dynamic from the following lenses: its being associated with diverse socioeconomic, cultural and geographic aspects; its being rooted in social exclusion which encompasses social, political, cultural, economic, and technological dimensions; its impact on people in several ways and to varying degrees over time, and the caution for stakeholders not to examine financial inclusion issues in isolation of other relevant facets of development – such as non-financial capital types: physical, natural, human, and social. All the forgoing dimensions underscore the imperative of holistic approach to financial inclusion.

Key Strategies for Financial Inclusion

Factors responsible for the low rate of financial inclusion in Nigeria – gender issues, lower level of education, poverty, high costs of transactions in the formal sector, formal financial institutions being too far way, religious factors, lack of trust and so on - been documented (Ajakaiye, 2013); the main concern of this paper is about how to reverse the situation faster towards enhanced financial inclusion. In this

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context, there are diverse strategies for enhancing financial inclusion; these range from profit-oriented to non-profit/social development perspectives (Yunus, *et al,* 2015). Some of the latest strategies for boosting financial inclusion particularly in developing economies have also been well documented (Mercy Corps, 2016) and these include, among others, the use of smart subsidies and financing, promotion of appropriate (pro-poor) products and services, increasing client-level financial capability (combination of financial skills, knowledge and behaviours needed to make informed and effective financial decisions), integration of technology and digital finance, strengthening financial market institutions and regulations, facilitating appropriate financing mechanisms and new delivery methods, and continuous solution-driven research and reiterative analysis.

Measuring Financial Inclusion

Measuring and tracking financial inclusion is crucial for identifying reform priorities and incentives as well as identifying strategic milestones progress attained overtime. In this study, guided by the theory of change which lies in its ability to demonstrate progress towards targets (Taplin *et al*, 2013; Ajakaiye, 2013), the relevant indicators for this purpose have been classified into four: Access (ability to use financial services/products), quality (relevance of financial service/product), usage (permanence and depth of financial service), and impact (changes in the lives of consumers attributable to the use of financial device/product/service). While all these parameters are crucial to tracking financial inclusion, the emphasis in the present analysis is access and usage-driven. In this context, several indicators in the index of financial inclusion include demographics, branch penetration, ATM penetration, loan penetration, and so on. However, it is noted that mere ownership of a financial product or device does not mean financial inclusion rather it is the actual usage of the financial service that ultimately delivers the benefit of financial inclusion – economic empowerment and self-reliance.

Basic Financial Services and Products as Key Performance Indicators (Kpis)

Basic financial services or products for financial inclusion purpose include payment, savings, credit, insurance and pension, while the contemporary channels for delivering or distributing these fundamental financial products are bank branches, ATMs, PoS, and Agents (CBN, 2014). Availability and ease of savings and payment system in particular facilitate exchange, and exchange is the crucial process by which mankind prospers and progresses (Frisby, 2014).

Mobile Money and Financial Inclusion in Africa

There is some noticeable correlation between financial inclusion and the degree of people access to affordable financial infrastructure or new technology. Of the seven billion people in the world, only around two billion are banked and participate in ecommerce, yet about 5 billion have at least some access to the internet (Frisby, 2014). It is in this context that the role of mobile money (M-Pesa), bypassing traditional banking, in accelerating financial inclusion in Kenya is well documented, notably, in the section 'Empowering the great unbanked' by Frisby (2014). Mobile money has the advantage of ease of use, but its efficacy is still subject to internet connectivity, mobile phone coverage and affordability of the mobile phones. Of course, there are all sorts of concerns for mobile money – money-laundering, tax, etc. – but such concerns are also applicable to traditional banking approaches that have kept millions of rural folks out of the mainstream financial system. Thanks to M-Pesa, financial inclusion is estimated to be at 80 per cent in Kenya and M-Pesa reportedly launched in Tanzania, South Africa, India, Afghanistan, and Eastern Europe. Evidently, the monetary and payment monopoly that banks have enjoyed for so long is under threat from more efficient payment systems like M-Pesa. The Central Bank of Nigeria (2014: 193) even suggested that the Kenyan payments system (simple, cheap way to transfer money)

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should be replicated as the model for enhancing financial inclusion in Africa, especially considering that majority of Africans live in villages.

Financial Inclusion as a Strategic Tool for Inclusive Growth – Some Theoretical Issues

There is a multiplicity of explanations for the growing socio-economic importance of financial inclusion. The present contribution is based on the following broad tripartite perspectives that have been frequently voiced in academic, religious, political and international development policy and practice circles (Anderson, 2005; Chris *et al*, 2011; Cull & Demirguc-Kunt, 2012; Ajakaiye, 2013; Taplin *et al*, 2013; Eluhaiwe, 2013; Ozughalu & Ogwumike, 2015; Demirguc-Kunt *et al*, 2015; Umoh, 2016; Mercy Corps, 2016):

- Finance-Growth Theories: This refers to the imperatives and arguments for or against finance-led inclusive growth, social equality and justice: It is contended that reducing inequality and increasing degrees of inclusiveness through financial inclusion initiatives can lead to a process of strong and sustained growth and efficient delivery of social security benefits to the under-privileged sections of the society. Financial exclusion is part of social exclusion, hence, ensuring that the national economy is managed in a way as "to secure the maximum welfare, freedom, and happiness of every citizen on the basis of social justice and equality of status and opportunity" is a fundamental objective and directive principle of the Government of Nigeria (S. 16 of the Constitution of the Federal Republic of Nigeria, 1999). Studies have revealed that countries with high rate of financial exclusion (26-48% and above) showed higher poverty ratios measured by both national and international poverty lines, hence financial inclusion is a prerequisite to economic development. (Aduda & Kalunda, 2012; World Bank, 2015).

- Financial Intermediation and Financial Stability Theories: This refers to concerns for financial sector development, looking at financial intermediation – the extent to which financial institutions bring deficit spending units and surplus spending units together - as critical tool for inclusive economic development. The proposition is that a greater participation of workers of all vocations in overall productivity growth will not only lead to social protection of the poor for poverty alleviation, but also for strengthening the dynamics of domestic markets particularly in terms of monetary stability. Lack of access to finance has been severally associated to persistent income inequality, poverty traps, and lower growth (Aduda & Kalunda, 2012). Relatedly, financial stability is the state where financial intermediation process works smoothly while financial instability is characterized by financial markets shocks and volatility as frequently experienced in developing economies like Nigeria. Thus, sustained and creative development of the financial sector or soundness of the financial sector as a whole as the veritable platform for availing a bouquet of needed financial services at a fair price, at the right place, form and time and without any form of discrimination to citizens, is seen as pivotal to inclusive growth. Financial stability, effectiveness of monetary policy implementation, financial resilience, and financial inclusion can be enhanced through tiered banking system, ease of entry and exit of operators, efficient national payment system, existence of foreign-owned banks and effective deposit insurance (Aduda & Kalunda, 2012; Yakubu & Achua, 2015; Demirguc-Kunt *et al,* 2015).

- Theory of Change: Emerging in the 1990s as a methodological model and evaluate comprehensive community initiatives, the Theory of Change (ToC) explains the need to define strategic, long-term goals by stakeholders as a prerequisite for change and then mapping backwards to identify the conditions precedent to attaining the desired change As detailed by

Anderson (2005), the ToC idea is that a set of early and medium-term accomplishments prepares the stage for achieving long-term results. Creating a honest strategic picture of the steps needed to reach a goal, the ToC is also an expectation management tool requiring that a distinction is made between desired and actual outcomes, and modelling the desired outcomes before any forms of intervention is decided.

Evidently, the three perspectives are interrelated; you need a theory of change as a tool for developing solutions to complex socio-economic problem like financial inclusion, and you cannot have inclusive growth without using financial inclusion and market development as a means to achieving the vision of an inclusive, stable society. Hence, the present study is based on a 'holistic' doctrine of financial inclusion founded on the core objective of responsible governance – sustainable growth and social justice.

Aspects of Nigeria's National Financial Inclusion Strategy (NFIS)

Nigeria is a richly endowed country and one of the ten most populous nations in the world. The country is among the largest exporters of crude oil, a major cocoa exporter and one of the largest producers of bitumen, steel, coal, to mention a few. Her huge natural assets include very large arable land and good forest reserves. Nigeria has nearly 200 million people making it the most populated black nation on earth. The country is currently classified 'lower middle income' economy with 96.6 million adult (15 years and above) population with Gross national Income (GNI) per capita of US$2, 710 (Demirguc-Kunt *et al*, 2015). The Central Bank of Nigeria (CBN) as the custodian of the financial system in the country, acknowledges executable and achievable financial inclusion strategy as a crucial lever to achieving its mandate of financial system stability and growth (Fatokun, 2013). Consequently, the National Financial Inclusion Strategy (NFIS) of Nigeria, launched on October, 23, 2012, was aimed at reducing the percentage of adult Nigerians excluded from financial services from 46.3 percent in 2010 to 20.0 percent by 2020. The implementation process has been largely collaborative, involving not only the Deposit Money Banks (DMBs), but other key stakeholders, notably, National Insurance Commission, the national Pension Commission, Securities and Exchange Commission, the Nigeria Deposit Insurance Corporation, the Federal Ministries of Finance and Communications Technology, the National Communications Commission, as well as state governments with high exclusion rates (HERs). States with HERs include Kano (77%), Jigawa (70%), Ogun (49%), Cross River (37%), and Rivers (37%), among others (CBN, 2014). The collaborative efforts have resulted in a wide range of initiatives and reforms such as in the inclusion of the informal sector in contributory pension scheme under the new 2014 Pension Reform Act, optimal pricing of mobile payment services by mobile network operators, extending deposit insurance coverage to subscribers of mobile money, thereby boosting market usage and confidence, and the Securities and Exchange Commission's capital market master plan (2015-2025) that includes financial inclusion objectives.

Non-Bank Initiatives

Based on the CBN (2014)'s report, various collaborative efforts mentioned earlier in the introduction, have resulted in a wide range of initiatives and reforms such as in the inclusion of the informal sector in contributory pension scheme under the new 2014 Pension Reform Act. The Act also makes it mandatory for state governments to do the same; optimal pricing of mobile payment services by mobile network operators, fostering best service availability and experience; extending deposit insurance coverage to subscribers of mobile money, thereby boosting market usage and confidence; the Securities and Exchange Commission's capital market master plan (2015-2025) that includes financial inclusion objectives and setting up a Financial Inclusion Division within the Agency; launching of the National e-ID

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card in August 2014 by the National Identity Management Company, providing identification numbers to enhance savings and payments including government's welfare benefits; enabling NIPOST to provide financial services as agents of deposit money banks (DMBs) under a new bill initiated by the Federal Ministry of Communications Technology; promotion of investment in long distance fibre optic cables from mobile network operators (MNOs) and other stakeholders could draw requisite connectivity for their operations; and geospatial mapping of financial services access points in Nigeria. **It remains to be seen how these activities have, in concrete terms, facilitated the achievement of the set target for financial inclusion in the economy by 2020.**

DMBs' Financial Inclusion Initiatives and Programmes

The DMBs' financial inclusion programmes are in the following areas (CBN, 2014): Institutionalisation of financial inclusion as a corporate strategy; roll-out of specific products that facilitate savings mobilization from different customers; implementation of tiered Know-Your-Customer (KYC) framework, easy account opening procedures, and customer identification using biometric solutions; target-setting for ATM and PoS growth; financial literacy campaign and public education on financial products; establishment of customer help-desks for resolving disputes and reinforcing confidence; implementation of mobile money services in partnership with MNOs; and implementation of agent banking system.

The NFIS in Brief

Following CBN (2014), the status can be summarized as follows:

I. The financial exclusion rate (FER) declined from 46.3 percent in 2010 and 39.7 percent in 2012 to 39.5 per cent in 2014. While the sustained decline in FER may be commendable, clearly more work is still needed to be done if the target of 20.0 per cent by 2020 is to be realized.

II. Gender-wise: 42.7 percent of the total female population was financially excluded, compared with 35.8 percent for the male population

III. 47.5 per cent of the rural population was financially excluded, compared with 24.8 percent of the urban population.

Review Related Studies

Financial inclusion is widely seen as pivotal to poverty eradication and inclusive economic development and it is no surprise that many researchers have examined its ramifications from diverse angles – notably, scope, components, impact, models, and measurement. However, as earlier noted, in the Nigerian context, existing studies on financial inclusion have not explored the extent to which national initiatives and programmes and strategies have attained their set targets, with a view to recommending policies for desirable corrections, fine-tuning or emphasis.

It has earlier been noted that 'impact' is one of the four strategy measures in financial inclusion. In this context, a burning issue is on whether or not full financial inclusion is a possibility or simply unattainable. This is a difficult question to answer considering the multi-dimensionality of financial inclusion and the plethora of indicators that have to be deployed in attempting to answer it. Hence, Aduda and Kalunda (2012), attempting to identify the relationship between financial inclusion and financial stability, opine that enhanced measures of financial inclusion in terms of usage and access do

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impact financial stability in developing economies like Kenya. This means that concerted efforts should be made to integrate informal financial services into the formal financial system.

Research has also been concerned about the dearth of information on the narrower issues of business and financial structures of informal enterprises without which the desired integration of the informal sector into the formal financial system would remain problematic. Thus, against the general focus on the broad-based development of the informal sector, Oladejo *et al* (2014) propose and characterize hexagonal structure articulation approach – based on aspects of business organization, production, cash flow, capitalization, technology, and financing – as a way of enhancing research to gain proper understanding of the informal enterprises in Nigeria towards achieving inclusive and sustainable financial sector.

Typical of many commodities-dependent developing economies, Nigeria is currently in the process of accumulating more and more external debt (US$30 billion) to finance her fiscal deficits and huge socio-economic desires, whereas it has been empirically established that productively and financially developed economies experienced low accumulation of external debt (Chuku, 2013). Hence, it is stressed that all efforts should be made to improve access to credit by micro, small and medium enterprises (MSMEs) so as to move majority of entrepreneurs out of poverty (Evbuomwan *et al*, 2013). Indeed, it can be argued that what Nigeria really needs more than debt accumulation is intensification of small business-oriented financial inclusion strategy implementation to strengthen its financial market.

Ozughalu and Ogwumike (2015)'s economic study on inclusive growth and poverty reduction in Nigeria shows that the country has not experienced inclusive growth over the years despite impressive economic growth over the years. The research attributed the situation to macroeconomic factors such as the poor performance of the manufacturing sector, weak knowledge base, poor human capital development and low level of global competitiveness.

Research has also looked at the peculiar nature of financial inclusion measures. This covers 'supply-side' and 'demand-side' measures detailed in the literature (Ajakaiye, 2013). Examined in the Nigeria context, Ajakaiye (2013) stresses the importance of ensuring that such measures should encompass different parameters that are reflective of the subject country's local peculiarities, diversity and complexity. The research notes that males are more financially included (47.4%) than females (38.3%) and that Nigeria performs relatively lower than South Africa, Namibia, Botswana in financial inclusion drive. It is further noted that financial inclusion is higher in high-income countries than developing countries; while 89 percent of adults in the former have accounts at a formal financial institutions, only 41 percent of the latter do (Ajakaiye, 2013)

Contribution to Knowledge

This paper describes how financial inclusion has changed over time in Nigeria with some reference to the global context. As earlier noted, many works have examined several dimensions, philosophy and scope of financial inclusion, but fewer academic papers have focused on its strategic implications for change management in a world that is constantly in a state of flux (Hindle, 2008).The present contribution is significant in terms of its strategic (as opposed to the familiar macroeconomic) change management underpinning, its relatively wider coverage (to include geopolitical analytics), and use of multiple data from both domestic and international sources. Financial sector development is a prerequisite to sustainable economic growth and development financial inclusion research is imperative;

much more so in Nigeria if the financial sector is to effectively play its critical financial intermediation role effectively and efficiently. To this end, research needs to go beyond why financial inclusion is not happening as fast as we want, to identifying gaps in strategy implementation so that appropriate incentives and capacities can be designed for sustainable inclusive growth. In the Nigerian context, there is a dearth of academic papers focused on theory-driven financial inclusion strategy implementation in terms of the extent to which national initiatives and programmes and strategies have attained their set targets, with a view to recommending policies for desirable corrections, fine-tuning or emphasis. Hence, the present contribution - a descriptive analysis based on data covering 2011 to 2014 sourced largely from the Central Bank of Nigeria and Global Findex database - is designed to test the retrospective theory of change which is not just about generating knowledge on whether or not an initiative or programme is effective, but also on providing insights into areas of possible financial inclusion reforms and priorities for the future.

Methodology

The present study is a retrospective analysis of Nigeria's National Financial Inclusion Strategy (NFIS) launched in 2012, based on reading the NFIS documents, talking to stakeholders and analyzing available data spanning 2012 to 2014. The approach is expected to help policy makers to assess the plausibility, feasibility, testability and accountability of the set targets as prescribed by Kubisch (1997) and others.

Guided by the theory of change which lies in its ability to demonstrate tangible progress on the achievement of targets so that evidence of success will confirm the theory and indicative of strategy effectiveness (Taplin *et al*, 2013), the relevant indicators assessed in this study have been focused broadly on access and usage. Financial inclusion has been measured from both supply side (4no indicators) and demand side (5no.indicators). The demand side refers to the use of financial products and services, while the supply side captures measures bordering on access to finance. Thus, following Ajakaiye (2013), nine key indicators are examined in this paper, namely, payments, savings, credit, insurance, pension, branch penetration, ATM penetration, PoS penetration, and spread of bank agents. This theory-based approach helped the study to be focused on key concerns and practical dimensions of financial inclusion as a desirable socio-economic change process.

Research Questions

I. What are the achievements Nigeria's National Financial Inclusion Strategy (NFIS) at geo-politically?

II. How has the NFIS performed in terms of Gender, Payments, Savings, and Credit?

III. What is the overall performance of the NFIS?

Data and Analysis

Data were sourced from the CBN and the World Bank's Global Financial Inclusion (Global Findex) (Demirguc-Kunt *et al*, 2015), complemented with the Enhancing Financial Innovation and Access (EFinA) survey details. EFinA, funded by DFID and Bill and Melinda gates Foundation, tries to promote financial inclusion in Nigeria and has conducted surveys of adults of 18 years and above. The Global Findex captures how adults in 140 countries save, borrow, make payments, and manage risk in 2014. Data harmonization of the three major data sources was done to periscope the implied variances to the 2020 NFIS targets, as shown in Table 1.

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Table 1: Financial Inclusion in Nigeria (2012-2014) – Harmonizing the data multiple sources

Data Sources	% Financially excluded as at 2012-2014	Variances to 2020 NFIS target of 20%
EFinA	43% (2012)	-23%
Global Findex	44.4% (2014)	-24.4%
CBN	60.5% (2014)	-40.5%
Average	49.3%	-29.3%

Source: Author's analysis (2016)

The results in Table 1 suggest that roughly half of Nigerian adults are still excluded from the formal financial system.

Assessment of the specific achievements towards the set 2020 targets under the Nigeria's National Financial Inclusion Strategy was based on the nine KPIs explained in the literature review.

IV. Results and Discussion

Financial Inclusion in the Geopolitical Zones of Nigeria

Table 2 presents the Financial Exclusion Rate (%) in Nigeria according to Geopolitical Zones, from 2012 to 2014. It is shown that the North-west geopolitical zone comprising Sokoto, Kebbi, Zamfara, Katsina, Kano, Jigawa, and Kaduna States make the most significant improvement with the financial exclusion rate (FER) dropping from 63.8 per cent to 56.0 percent between 2012 and 2014 that is about 12 per cent progress. Only a marginal improvement of 0.78 per cent was recorded in the South-East zone with nil improvement in the South west zone; at the current (2014) levels of about 25 percent, these two zones are the closest to achieving the 2020 NFIS.

Table 2: Financial Exclusion Rate (FER) (%) in Nigeria according to geopolitical zones, 2012 - 2014

Geopolitical Zone	2014	2012	Variance	% Improvement
North West	56	63.8	7.8	12.23
North East	68.4	59.5	-8.9	-14.96
North Central	32.7	32.4	-0.3	-0.93
South West	24.8	24.8	0	0.00
South East	25.4	25.6	0.2	0.78

South South	32.7	30.1	-2.6	-8.64

Source: Central Bank of Nigeria (2014)

Contrariwise, the North-east, North-central, and South-south are the three geopolitical zones recorded high exclusion rates (HERs) during the period. The North-east and the South-south geopolitical zones were worst hit by insecurity and environmental pollution issues in the country and this might have explained the negative achievement recorded for financial inclusion in these parts of the country respectively. It is highest in the North-Eastern zone, notably, Borno, Yobe, and Adamawa States, which had been, until recently, ravaged by the *Boko Haram* insurgency, with the zone's FER increasing from 59.5 per cent to 68.4 percent between 2012 and 2014. In the oil-rich Niger Delta (South-south) region of Nigeria with, FER also increased from 30.1 percent in 2012 to 32.7 per cent in 2014.

Performance of the NFIS so far in terms of the penetration of critical financial services such as Payments, Savings, and Credit?

Gender and age are matters of importance in financial inclusion especially in developing economies. Table 3 shows the distribution of ownership of formal financial account in Nigeria between 2011 and 2014. Whereas there has been some improvement (1.45% per annum) in financial inclusion in 2014 (44.4%) relative to the situation in 2011 (29.1%), comparable progress (0.52% per annum) in the country's financial inclusion drive, in statistical terms (43%), has been abysmal since the NFIS was launched in 2012.

Table 3: Distribution of ownership of formal financial account in Nigeria, 2011 – 2014

Indicators	2011	2012	2014
All Adults	29.7%	43.0%	44.4%
Women			34.0%
Young Adults (15 – 24 years)			35.7%
Adults living in rural areas			39.4%

Sources: Ajakaiye (2013); CBN (2014), and Demirguc-Kunt *et al* (2015).

The reasons for the country's high level of financial exclusion, alluded to in the literature, includes the gender issues, bankers' perception that the poor are not bankable, poverty, complicated paper work, preference for individual account as against collective accounts and the demands for physical collateral and financial illiteracy. Gender-wise, only34 percent of Nigerian women had an account as of 2014, compared to the global average of 58 percent during the same year (Demirguc-Kunt *et al,* 2015).

Payments Services and Digital Inclusion

Mobile telephony and digital banking – covering cash-in, cash-out, electronic transfers, bill payments, pre-approved credit lines, micro-credits, m-health, m-insurance, m-agric, and so on -, generally form a critical part of NFIS because of the associated convenience and cost effectiveness, serving mostly as substitute for cash payments. Table 4 provides a picture of the extent of digital penetration in Nigeria in terms of ownership and use of mobile and digital accounts in the country between 2011 and 2014. It is

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acknowledged that mobile payment operations have been live in Nigeria since November 2011 with 6.9 million transactions valued at N74.3 billion as of may 2013 (Fatokun, 2013). Notwithstanding, the Table 4 suggests that, while the ATM has become a major mode for funds withdrawal in the financial system (from 40.8% of adults in 2011 to 70.5% in 2014), the same cannot be said about ownership and use of mobile accounts, debit cards, credit cards, and Internet which remain at abysmally low levels of 2.3%, 14.1%, 1.9%, and 3.3% respectively as of 2014.

Table 4: Digital inclusion: Ownership and use of mobile and digital accounts in Nigeria 2011 – 2014 (% of Adults)

Indicators	2011 (%)	2014 (%)
Mobile accounts		2.3
Has debit card	18.6	35.6
ATM is the main mode of withdraws	40.8	70.5
Adults living in rural areas		39.4
Used debit card to make payment		14.1
Used a credit card to make payment		1.9
Used the Internet to pay bills or make purchases		3.3

Sources: Ajakaiye (2013); CBN (2014), and Demirguc-Kunt *et al* (2015).

Though fairly better than the global average of 1.0 percent, the low level of digital banking penetration in Nigeria (2.3%) is attributed to epileptic power supply, poor telecommunication connectivity, and inadequate synergy between mobile payment operators and the telecommunication companies. It is known that, in Sub-Sahara Africa, mobile money accounts drive the growth in financial inclusion between 2011 and 2014. Nigeria therefore needs to intensify its mobile money market to catch up with the rest of Africa, East Africa in particular, where Kenya as the largest share of adults with mobile money account (Demirguc-Kunt *et al* , 2015).

Savings Account

Table …displays the pattern of ownership of savings account at financial institutions in Nigeria 2011 – 2014. The result suggests that while most people (69%) tend to be prudent enough to save for one reason or the other, much fewer Nigerian own and use formal savings accounts. Stepping up financial literacy programmes as suggested by Eluhaiwe (2013), among others, could help to redress this development.

Table 5: Ownership of savings account at financial institutions in Nigeria 2011 – 2014 (% of Adults)

Indicators	2011 (%)	2014 (%)
Saved at a financial institution	23.6	27.1
Saved any money		69.0

.Sources: Ajakaiye (2013); CBN (2014), and Demirguc-Kunt *et al* (2015).

Credit Facilities

Table 6 displays financial inclusion in Nigeria through the lens of credit facilities between 2011 and 2014. Evidently, while more adults have obtained formal loan accounts during the study period (from 2.1% in 2011 to 5.3% in 2014), this achievement pales into insignificance when compared to the much higher level of adults that borrowed from family and friends (37.5%) or borrowed any money at all (44.8%).

Table 6: Use of formal credit facilities in Nigeria 2011 – 2014 (% of Adults)

Indicators	2011 (%)	2014 (%)
Borrowed from a financial institution	2.1	5.3
Borrowed from family and friends		37.5

Sources: Ajakaiye (2013); CBN (2014), and Demirguc-Kunt *et al* (2015).

The Nigerian credit market is bedeviled with myriad of challenges, notably, dearth of long-term funding and information asymmetries between financial providers and the 'poor' consumers (Dutse, 2013). It has earlier been noted in the literature that countries with higher levels of domestic credit to private sector also experience higher rate of financial inclusion (Ajakaiye, 2013), hence, it is important for stakeholders to address this issue more seriously if the NFIS 2020 target is to be achieved.

Overall extent of financial inclusion in Nigeria vis-a-viz 2020 NFIS targets

The Appendix and Fig. 1 display the overall picture of achievements towards the set 2020 targets under the Nigeria's National Financial Inclusion Strategy based on the nine selected KPIs for this research. A close look at variances column in the Appendix suggest that serious doubling-up actions are needed particularly in the areas of payment / remittances, PoS and ATM services where the financial inclusion gap is widest among the KPIs.

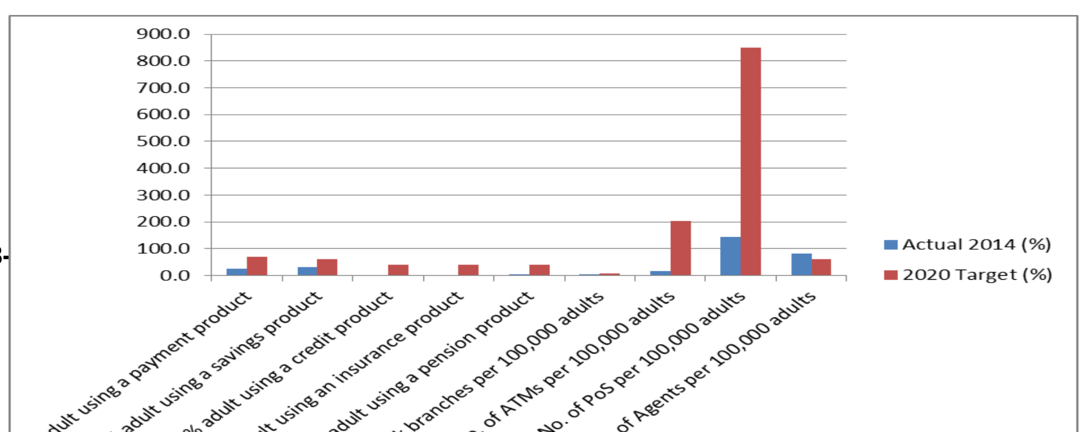

Figure 1: Concerted strategy implementation is needed to achieve set targets for Electronic Financial Services (ATM and PoS) by 2020
Source: Central Bank of Nigeria (2014)

Summary of Findings

The key results of this study are as follows:

I. Two geopolitical zones worst hit by insecurity and environmental pollution issues recorded relatively high exclusion during the period.

II. While the ATM has become a major mode of funds withdrawal by account holders (increasing from 40.8% of adults in 2011 to 70.5% in 2014), persisting inadequacy of the number of ATMs per 1000 adults has continued to be obstructive to financial inclusion targets. Also, while more adults have obtained formal loan accounts during the study period (from 2.1% in 2011 to 5.3% in 2014), this achievement pales into insignificance when compared to the much higher level of adults that borrowed from family and friends (37.5%) or borrowed any money at all (44.8%). Moreover, also most people (69%) save, fewer Nigerians use the formal savings facilities and products.

III. Overall, the level of financial inclusion in Nigeria is still low at 44.4 percent compared to the target of 70-80% by the year 2020. More of the female adult population still remain excluded than male. Nine KPIs were evaluated out which only one (physical branch network) had so far nearly met the 2020 target.

Conclusions

This paper tried to describe how financial inclusion has changed over time in Nigeria bearing in mind recent global developments and growing emphasis on sustainable inclusive development. The study's main argument is that merely having financial transactions without ensuring statistically capturable or monitorable transactions undermines the whole beneficial purpose of financial inclusion initiatives. The overarching goal is to improve people's lives. The study therefore adopted a 'holistic' doctrine of financial inclusion founded on the core objective of responsible governance – sustainable inclusive growth and social justice. Evidently, with only a marginal improvement in national financial inclusion recorded during the period (financial exclusion declined marginally from 39.7 percent in 2012 to 39.5 percent in 2014), concerted strategy implementation of the NFIS remains critically imperative as the target year 2020 approaches. For Nigeria's financial inclusion strategy to remain effective towards national aspirations of poverty eradication, financial stability and sustainable development, financial inclusion intervention measures should be expeditiously and continuously identified and provided. Imbued with agility, continuous monitoring and evaluation, financial inclusion is the smart way to diversify the economy.

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Thus, for strategy effectiveness that will move Nigeria faster towards achieving its set national financial inclusion targets for 2020, the following recommendations are apposite:

I. Based on the multi-dimensionality of financial inclusion, there is a need for innovativeness and greater flexibilities in NFIS's policy and regulatory aspects. Reaching the grassroots with financial services should not be left for the microfinance banks alone; the mega banks should be encouraged to establish in-house financial desks / branches, including strengthening agent banking system. The business environment should be investor-friendly in terms of robust availability of good roads, reliable and adequate power supply and consistent and clear-headed regulatory policies. The present study has reinforced the correlation between level of general feeling of security and financial inclusion, at least geo-politically. Government should therefore deal more seriously and proactively with the issue of security of lives and property across the country. The North-East and South-South zones need some kind of 'Marshall Plan' to catch with the rest of the country. Financial inclusion can only thrive in peaceful environment with visible enforcement of law and order without fear or favour. Also, women empowerment is vital for inclusiveness; Nigeria should take a cue from Kenya where the financial services sector has been revolutionalized by a paradigm shift from the brick-and-mortar model to the mobile platform, involvement of NGOs, and other initiatives for sustainable and effective financial inclusion.

II. Banks and financial institutions should strengthen their financial intermediation capabilities – proper banking models, products-designing processes and training - towards delivering tailor-made micro-financial services and products that are convenient and affordable for the weaker sections of the society.

III. Step up use of mobile /electronic technologies so as to drive demand and decrease transactions costs for financial providers and the clients. Government and other stakeholders should make huge investment in human capital development through qualitative education so as to develop the much needed financial skills and competencies that are required to imbibe and adapt technology to improve quality of life. In this regard, financial providers should work with learning centres to ensure that financial literacy is available to the poor to the mutual benefits of the provider and the customer.

Future Research

The present contribution has revolved around access and usage dimensions of financial inclusion, believing that financial services must first be accessed before the related issues of quality and impact become paramount. Nevertheless, future studies on the subject can try to test parameters of quality and impact. Also, the data used for this research are only up to 2014 and are therefore due for updates.

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Appendix

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S/No	*Key Performance Indicators*	*Actual 2014 (%)*	*2020 Target (%)*	*Variance*
1	% adult using a payment product	24.0	70.0	-46.0
2	% adult using a savings product	32.0	60.0	-28.0
3	% adult using a credit product	3.0	40.0	-37.0
4	% adult using an insurance product	1.0	40.0	-39.0
5	% adult using a pension product	5.0	40.0	-35.0
6	No. of Bank branches per 100,000 adults	5.9	7.6	-1.7
7	No. of ATMs per 100,000 adults	15.2	203.6	-188.4
8	No. of PoS per 100,000 adults	143.3	850.0	-706.7
9	No. of Agents per 100,000 adults	80.7	62.0	18.7

Source: Central Bank of Nigeria (2014)

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