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Financing inclusive growth in Nigeria: challenges and prospects.

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Financing Inclusive Growth in Nigeria: Challenges and Prospects

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… More diversified economies are also likely to deliver more inclusive growth – growth that create jobs for more people, and shares the benefits more widely. We know from recent experience how much the social dimension matters for long-run stability… Of course, countries that are commodity exporters have in recent years benefitted from higher prices. For them, the challenge is to use the gains from higher prices wisely – to preserve macroeconomic stability, but also to share the natural resource wealth fairly across society, and across generations.

(Lagarde, 2011)

The biggest challenge here is the KYC (know your client) issues and how to ensure that the borrower does not disappear. Ultimately, there is no substitute for credit information bureau/registry system which is comprehensive, ubiquitous and effective … mobile banking and cashless payments will go a long way in promoting financial inclusion.

(Krishnan, 2011)

I. Introduction

Nigeria's growth and development paths in the last five decades have been based on various economic models and development plans. From independence in 1960 to 1985, the Keynesian macroeconomic doctrine, which emphasizes the need for government involvement in the economy, ruled as the economic policy of the governments while thereafter and since the adoption of the World Bank/IMF sponsored Structural Adjustment Programme (SAP) in 1986, the country has vacillated between Neo-Classical and Keynesian doctrines.

Immediately after the civil war in 1970, Nigeria adopted Import Substitution Industrial (ISI) growth model with the hope of industrialising while reducing imports of food and industrial inputs over time. The subsequent improvement in oil output and quadrupling of the oil prices in 1974 with attendant huge revenue from the source resulted in the abandonment of the ISI growth path. Thereafter the

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government took over the "commanding height" of the economy by getting involved directly in production of goods (industrial and agricultural ventures) and services (banking, insurance, shipping, etc) either through nationalisation of businesses or investing in new enterprises.

This route to economic development, which was rooted in the Development Plans that was the vogue at that time, was truncated by oil gloom and world economic crisis of 1981 to 1984. Eventually in 1986, Nigeria adopted the SAP and the government de-emphasised its leadership role giving way to private-led economic growth path and deregulation of prices and markets. The SAP was a short-term economic therapy (supposedly two-year programme) to restructure the economy from heavily regulated to a deregulated state. It was accompanied with a medium-term Rolling Plan as substitute for the Five Year Development Plans. The SAP ended up deregulating the markets and prices without bringing about the required restructuring capable of providing impetus for real growth. Domestic value of the naira was depreciated through market forces, so also was the rising nominal interest rates in the money market leading to high cost of production and lowering living standards. Free market or deregulated economy was in 1994-1996 jettisoned for "guided deregulation". Thereafter, mixture of economic policies without theoretical foundation was adopted from time to time up to the present time of Vision 20:2020 which include tangentially, inclusive growth.

Was there any special role for the financial system, particularly money and capital markets, in the implementation of these foregoing economic policies? Any role for the foreign exchange market? Answers to these questions will be provided in a later section, albeit, the objective of this paper is to suggest an explicit link between inclusive growth path and the financial sector.

The rest of this paper is divided into four Sections. The next section, Section 2, contains literature on theoretical construct on economic growth and development models, including Inclusive Growth (IG) model while in Section 3 we present the role of money in economic growth. Section 4 looks at models of financial inclusion and evidence of financing inclusive growth in some developing countries. In Section 5, we identified challenges and prospects for financing inclusive growth in Nigeria. Section 5 is the concluding remark where some recommendations are proposed for successful inclusive growth financing in Nigeria.

II. Theoretical Literature

Literature is replete with not only the theories of growth and development but also their failure to lift the developing countries out of the poverty quagmire. A number of emerging countries link their development plans to specific theories in order to give focus to the factors/variables that can be manipulated to achieve the desired goals, as well as, provide avenue for measurements or deviation from/alignment with targets set by those theories. For instance, India does this regularly (Raj, 1961, Jinghan, 2006), so also is Malaysia, China and other emerging economies. Nigerian plans are hardly based explicitly on a model which leaves room for conjecture.

In fact, continuous research into and proposal on how economies can grow and develop are attempts to assist the less developed countries (LDCs) to catch up with developed countries (DCs). As these theories emerge, some LDCs also emerge from the poverty tangle, either as a result of the application of the new theories or completely through application of some home-grown thesis. The import of this section is to provide an overview of some of the theories, including the Inclusive Growth model.

The Harrod-Domar (H-D) growth models often form the starting point for discussing growth theories. The H-D models (1947; 1957) were developed separately by Harrod and Domar but they converged at the same point of placing emphasis on the role of saving and investment in the process of economic growth. If saving is growing and channelled to productive investments, income will grow with concomitant growth in capital and output. Being a classical model, full employment equilibrium in the economy is important. Thus, to maintain full employment equilibrium level of income continuously from year to year, both output and real income must expand at the same rate with the productive capacity of capital stock expansion. The equilibrium rate of growth is also called the "warranted rate of growth".

A number of other growth theories have since emerged. These include Kaldor Model of Growth (1957) which provide framework for relating the genesis of technical progress to capital accumulation; Pasinetti Model of Profit and Growth (1962), Mahalanobis Model (1953) of two-sector and later four-sector model which formed the basis for India's 2nd National Development Plan; The Solow Neoclassical Growth Theory (1956), and, the New Endogeneous Growth Theory. The theories of relevance for discussion in the paper are the Solow and the New Growth theories.

The Solow neoclassical long-run growth model, based on a number of assumptions including variable technical progress, constant return to scale and full employment of labour and available capital stock, hypothesised that there would be tendency for capital-labour ratio to adjust towards equilibrium ratio over time. If, initially, the ratio of capital to labour is more, capital and output would grow more slowly than labour force, vice versa. A more important element of the theory is the assumption of exogeneity of technology which he predicted that could make developing countries (LCDs) to be faster than the developed countries (DCs) and the per capital income in these countries (LDCs) would converge to the level of the DCs over time while the GDP growth rate in a country will eventually be the same as the growth rate of the population.

In conjunction with Swan, and in what is known as Solow-Swan neoclassical growth theory, they posited that the long-run growth rate of output are based on two exogenous variables viz the rate of population growth and the rate of technological progress. Here, growth is independent of the saving rate and government policy actions.

The Endogenous growth models (EGMs) can be regarded as a reaction to the Solow-Swan growth model. The prediction by the neoclassical growth theory that the LDCs will grow faster than the DCs and per capita income in the former will converge to the level of the DCs did not materialise for those LDCs that actually witnessed economic growth. The EGMs were developed by economists like Romer (1986, 1990) and Lucas (1988) though Arrow (1962) had earlier in 1962 provided a glimpse into future about role of knowledge-based economy in economic growth equations. The models emphasise existence of technical progress arising from rate of investment, the size of capital stock and the stock of human capital.

The EGMs are based on some general assumptions viz:

- There are many firms in the market
- Knowledge or technological advance is a non-rival good
- There are increasing returns to scale to all factors taken together and constant returns to a single factor, at least for one factor;
- Technological advancement comes from things people do or creation of new idea; and
- Many individuals and firms have market power and earn profits from their discoveries. This assumption emanates from increasing returns to scale in production under situation of imperfect competition (Jhingan, 2006:292xxv)

i. Arrow (1962) regarded labour as endogenous and, therefore, introduced the concept of *'learning by doing'* in the growth process. He averred that new capital goods incorporate all the available knowledge based on accumulated experience though once built, their productive deficiencies cannot be changed by subsequent learning. Thus, he did not explain that his model could lead to sustained endogenous growth. The theory was later extended and generalised by Levhari and Sheshinski who argued that spill-over effects of increased knowledge by labour through *learning by doing* is actually the source of knowledge or each firm's investment.

Also, King and Robson developed a model extending Arrow's thesis but emphasising *Learning by watching* in their technical progress function. They contended that investment by a firm represents innovation to their own needs and innovation in one sector of the economy has contagion or demonstration effects on the productivity of other sectors, thereby leading to economic growth. They opined that even for economies that have similar initial endowments, multiple steady state growth paths exist and policies that increase investment should be pursued.

ii. Romar Model: Romer first presented a variant of Arrow's paper in 1986 and this is known as *Learning by Investment*. He assumed that creation of knowledge is a by-product of investment and takes knowledge as an input in the production function. It is spill-overs from research efforts by a firm that leads to the creation of new knowledge by other firms. New knowledge is the ultimate determinant of long-run growth and is, thus, determined by investments in research technology. He, however, explained that research technology exhibits diminishing returns such that investments in such research will not double knowledge. Also, there is always spill over benefits of any increase in knowledge from one firm's research output. The other firms also benefit from the research output freely due to absence of patent protection. Romer affirms that investment in research would lead to increased output thereby making knowledge an endogenous factor such that rational profit maximising firms should engage in acquisition of new knowledge through research.

In 1990, Romer moved a step further with his *model of Endogenous Technical Change*. The model recognises research sector as specialising in the production of ideas. Romer considers ideas as being more important than natural resources and cited the case of Japan which has no mineral resources but highly skilled human capital and dominated the electronic world for a long time. He concurred that ideas are essential for the growth of an economy as this would bring about improved designs for the production of producer durables good for final production.

iii. The Lucas Model: Lucas (1988) assumes that investments in education results in production of human capital. The crucial determinant in the growth process, according to Lucas, is the stock of human capital which effects he divided into two. Internal effects of human capital relates to where the individual benefits from training by increasing his productivity while the external effect increases productivity of capital and other workers in the economy. He posited that it is the investment in human capital that results in improvement in the level of technology. There is constant return to scale for each firm but increasing returns to scale for the economy as a whole. Lucas opined that it is not the accumulated knowledge or experience of other firms but the average level of skills and knowledge in the economy that are crucial for economic growth. Technology is therefore treated as a public good from the point of view of its users and endogenously provided as side effects of investment decision by firms.

The new growth theories above, though a departure from the earlier models, could not provide satisfactory explanation for the rapid growth and convergence of the newly industrialised economies of the Asian Tigers and the

BRIC States[1] (Pack, 1994; Grossman and Helpman, 1994; Lin, 2004). The investments in research and development, human capital and learning by doing in these countries were much lower than in the DCs, yet they grew at unexpectedly high rate.

For those developing countries that have been unable to catch up, a series of reasons has been adduced for it. The reasons include government interventions and regulations, wide spread corruption or helping (grabbing) hand of government, weak protection for investors, weak institutions, poor infrastructural facilities and lack of security (Shleifeer *et al.*, 1998; Rodrick, 1998, 2003; Acemoglu *et al.*, 2002a; Djankov *et al.*, 2003). The World Bank (2005) in its Report entitled *Economic Growth in the 1990s: Learning from a Decade of Reform* concludes that although the necessary fundamentals for growth such as a stable macroeconomic environment, enforcement of property rights, openness to trade, and effective government are key factors in the growth process, they are not the whole story.

While some economists continue to look into the causes of continuous underdevelopment of the LDCs in Africa and elsewhere (Shleifer and Vishny, 1993, 1988; Djankov, La Porta, Lopez-de-Silanes, and Shleifer, 2002; La Porta *et.al.*, 1998, 1999; Engerman and Sokoloff, 1997; La Porta *et al.*, 2001a) , the results on study of the Newly Industrialised Economies (NIEs) in Asia and the BRICS States have shown that their economic growth path did not follow the neoclassical and endogenous growth theories in their strict doctrine. The growth rates have some additional underlying impetus that propelled it without reaching the expected level of R & D and human capital development. This is the import of inclusive growth, which is fully discussed in below.

iv. The Inclusive Growth Model: There seem to be no formal theory setting up the Inclusive Growth path to development but the nature of the model can be gleaned from the lecture delivered by Justin Yifu Lin at the Asian Development Bank's Distinguished Speakers Program in 2004. In the lecture entitled "Development Strategies for Inclusive Growth in Developing Asia", Lin explained that most developing countries which are characterised by abundance of labour

[1] Asian Tigers are Korea (south), Malaysia, Singapore, Honk Kong, Taipei while BRIC States are Brazil, Russia, India and Peoples Republic of China (South Africa joined recently to form BRICS).

and scarcity of capital adopted capital intensive industries. This he referred to as Comparative Advantage - Defying (CAD) Strategy because the government attempts to encourage firms to ignore the existing comparative advantage of the economy in their choice of industry and technology, with resultant unemployment of the available huge labour.

Lin advocated 'Comparative Advantage-Following (CAF) strategy whereby government encourage firms in the country to enter industries for which the country has comparative advantage and to adopt the technology in production that will make the firms viable. This strategy, he argued, will make the countries benefit from the "advantage of backwardness" as suggested by Simon Kuznets (1966). He posits that CAF will cause the economy to:

> have a larger surplus, accumulate more capital, and have a faster upgrading of endowment structure than what are possible under the CAD strategy. The economy will also have a better income distribution as well because the CAF strategy will create more job opportunities for the poor…

Even when the question has been 'What is Inclusive Growth?' there have been attempts at explaining the meaning rather than defining the concept. Chakrabarty, the Deputy Governor of the Reserve Bank of India explains that:

> Growth is inclusive when it creates economic opportunities along with ensuring equal access to them. Apart from addressing the issue of inequality, the inclusive growth may also make the poverty reduction efforts more effective by explicitly creating productive economic opportunities for the poor and vulnerable sections of the society.

The term inclusive growth' was said to have been popularised by the India Development Policy Review of 2006. The Review which was titled "Inclusive Growth and Service Delivery: Building on India's Success", focused on two major challenges facing India namely (i) improving the delivery of core public services and (ii) maintaining rapid growth while spreading the benefits of the growth more widely.

The Indian Planning Commission (2007) also explained that the concept "Inclusion" should be seen as a process of including the excluded as agents whose participation is essential in the very design of the development process, and not simply as welfare targets of development programme.

Lanchovichina and Lundstrom (2009) argued that the definition of inclusive growth implies a direct link between the macro and micro determinants of growth and captures the importance of structural transformation for economic diversification and competition. The model is about the pace of growth and enlarging the size of the economy, while levelling the playing field for investment and increasing productive employment opportunities.

Furthermore, the main instrument for a sustainable and inclusive growth is assumed to be productive employment. They distinguished between *employment growth* and *productivity growth*. The former generates new jobs and income for the individual – from wages in all types of firms, or from self-employment, usually in micro firms while productivity growth has the potential to lift the wages of those employed and the returns to the self-employed.

Ianchovichina and Lundstrom (2009) explained that rapid and sustained poverty reduction requires inclusive growth that allows people to contribute to and benefit from economic growth. Rapid pace of growth is unquestionably necessary for substantial poverty reduction, but for this growth to be sustainable over time, it should be broad-based across sectors, and inclusive of the large part of the country's labour force. Inclusive growth is about raising the pace of growth and enlarging the size of the economy, while levelling the playing field for investment and increasing productive employment opportunities. Inclusive growth approach takes a longer term perspective as the focus is on productive employment rather than direct income distribution as a means of increasing incomes for excluded groups (Ianchovichina and Lundstrom, 2009).

The Commission on Growth and Development of the World Bank (2008) notes that 'inclusiveness' is an essential ingredient for any successful growth strategy and is a concept that encompasses equity, equality of opportunity, and protection in market and employment transitions. However, there is limited analytic study integrating the literature on growth and productive employment.

We can look at the Inclusive Growth model as an extension of the Endogenous Growth model in a sense that both recognise the importance of technological advancement and human capital development as ingredient of economic growth but the former is equally concerned about creation of more job opportunities to reduce unemployment, improve and spread income to the poor and vulnerable in a sustainable manner.

In concluding this section, it is important to ask the question: What is the role of money and finance in all these economic growth models? This is considered in the next section.

III. Economic Growth: What is the Role for Money and Finance?

The role of money in the classical view has to do with price movements alone. In this connection, money does not influence real sector activities where growth variables interact. Thus, while the classical and neo-classical models discussed above recognise the role of saving in providing the required loanable fund for investment and growth, they do not see saving as money supply or deliberate attempt of government or the private sector to raise finance but as outcome of thriftiness of the society. In that context, therefore, we cannot place economic growth, in the neoclassical thesis, at the doorstep of deliberate financial policy. However, firms do use retained earnings for further investments in addition to saving and economic growth results therefrom.

There is implicit proposition for financial needs to engineer growth in the endogenous growth theories. This should not be surprising as the theories place emphasis on growth rate of investment, the size of the capital stock and the stock of human capital and technology which require higher financial commitments. Of course, those theories arose at the time economists have come to realize the importance of finance in economic growth. The endogenous variables have much to do with the private sector and as well as with government which would need to use its fiscal might to finance investment or rely on its financial institution to do same. However, who is responsible for investing in the human capital and technology? the government or the private sector? the theories neither explain nor include it in the assumptions on which they are based. This is not the case with the inclusive growth model.

The inclusive growth model explicitly brings the role of government and role of finance into focus and this is captured in a number of write ups that have dotted the policy landscape since the popularisation of the model. Suffice to bring home the thoughts on this with the concluding remark by the Deputy Governor of the Reserve Bank of India, K.C. Chakrabarty (2011) when he stated:

> I would like to reiterate that the current policy objective of inclusive growth with stability is not possible without achieving universal Financial Inclusion. Thus financial inclusion is no longer a policy choice today but a policy compulsion. And as agents entrusted with the task of achieving financial inclusion, the role of the mainstream financial sector in achieving inclusive growth becomes central.

In discussing the challenges and prospects of financing inclusive growth in Nigeria as we present in the next section, it is imperative to look at the models of inclusive growth in some developing countries and the experiences in financing inclusive growth in Asia where the growth model has become synonymous. It is important to recall that financing inclusive growth means extending financial services and supports to the excluded or vulnerable segment of the society – the poor. This is not in form of income re-distribution but financing productive investments and promoting entrepreneurship. Let us start by looking at some models of financial inclusion.

IV. Models of Financial Inclusion[2]

The following are some model of financial inclusion that are practically initiatives of the private sector of the respective economies:

i. Republic of South Africa**:** The model is called "*No Frills Banking*" which is the launching of Mzansi accounts in 2004 with negligible minimum deposit and a set of number of free transactions. Within five years, six million accounts were opened, particularly by the informal economy. However, only 55% of the accounts was reported to be active at the end of 2010.

ii. Brazil: Here, the model is '*Branchless Banking*'. It has been in existence since 1970s and by 1997, about 40 million out of 62 million Brazilians did not

[2] This section benefits greatly from Misra (2010) and prepared reports by various bodies.

have access to any financial services. Thereafter, innovative policies were put in place to revitalise activities of the institutions and the total bank accounts in the country doubled between 2000 and 2008, from 63.7 million to 125.7 million.

iii. Kenya**:** Referred to as "*Bank without a Bank*". The model is such that there is no need to have a bank account but use a mobile phone company as mechanism for money transactions. Two mobile phone connections are attached to every bank account. The Kenyan authorities allow a mobile phone company to act as the repository of customers' money and allows them to transact businesses, though with no interest on saving and the company too cannot use the money for businesses. Safaricom-Vodafone launched M-PESA in 2007 as a parallel bank happening in real time through a wide network of about 17,000 'agents' and with about 10 million Kenyans now involved.

iv. Mexico: Entitled "*Super-Efficient Lending Mission*" by the non-profit organisation that started it (Branco Compatamos). The model is to show that microfinance is a business of scale and private capital. It is a profit-led model and has been found successful even with its 100 percent plus interest rate which might be the same or lower than what money lenders charge. It is regarded as a very efficient system with lots of innovation and cost minimisation and with growing profits.

These models need in-depth study to understand the workings of the systems. Presented below is a quick review of financial development and inclusive growth with formal government (or its agency) participation as adopted in some developing countries.

i. Financing Inclusive Growth in Bangladesh[3]: The government's programmes and policies seek to accelerate inclusive economic growth by focusing public expenditure outlays in developing the social and physical infrastructure, crowding in private investments in output activities. The Bangladesh Central Bank supports the government efforts on inclusive growth through its

[3] The information provided here is based on the Global Policy Forum 2011 held in Mexico.

financial inclusion drive which involves engaging banks in reaching out with credit and other financial services to productive pursuits in under-served areas like rural farming, small and medium scale enterprises, renewable energy and other environmentally benign ventures. To be able to reach large proportion of the new clients, the branch banking financial services are complemented with mobile phone/smart card based remote delivery and also by on-lending/co-financing partnerships of banks with locally active regulated Micro Finance Institutions (MFIs).

The financial inclusion drive in Bangladesh has successfully engaged commercial banks with different ownership (state-owned, private and foreign) in financing agriculture such that more than nine million new bank accounts for rural farmers were said to be opened in 2011 alone and around a third of the 2011 agricultural financing of private banks took place through bank-MFIs partnership with resultant increase in rural wages and reduction in poverty.

The Governor of the Bangladesh Bank reported that the Bank embarked on the process of ingraining the vision of financial inclusion in the financial sector by first issuing guidance for mainstreaming of Corporate Social Responsibility (CSB) obligations in institutional goals and strategies of all banks and financial institutions. These make the banks to be proactive in innovating efficient, cost effective mode of reaching out to the excluded and underserved population segments.

ii. Financial Inclusion in Malaysia[4]: The Malaysian financial inclusion programme was developed in concert with the development of the overall financial sector which has strengthened significantly in the recent decade in terms of stability, outreach and delivery. According to the World Bank Report (WBR) on inclusive growth in Malaysia, there are four broad strategies adopted to promote financial inclusion in Malaysia. These are:

- Strengthening development financial institutions (DFIs);
- Leveraging on the commercial banks' distribution network, product and risk management capabilities;

[4] Obtained from the World Bank: Malaysia Economic Monitor – Inclusive Growth, November, 2010. Pp.87-88.

- Building a comprehensive supporting infrastructure for the effective management of risks by financial institutions to reach out to the underserved; and
- Putting in place a comprehensive consumer protection, redress and education framework, hence promoting greater confidence and knowledge among consumers to utilise financial services.

The DFIs in Malaysia are government established specialised financial institutions with specific mandates to further the strategic national development agenda such as infrastructural development, fostering trade linkages and advancing financial inclusion. These institutions include the National Saving Bank (NSB), the Agricultural Bank (AB) and SME Bank. The NSB was given strengthened mandate to mobilise savings in underserved areas, promote micro-financing and rationalise the postal banking system while AB had been transformed to deepen access to financing the agriculture sector and the SME Bank was established to focus on serving the SME sector.

The World Bank Report (2010) explains that pursuit of financial inclusion in Malaysia adopts a collaborative approach that involves the government and the private sector. This approach effectively combines the innovation and enterprise of the private sector with the pivotal role assumed by the public sector. Both the Government and the Central Bank combine to create an enabling environment for the drive to raise the levels of financial inclusion, to strengthen the institutional structures, promoting long-term safety and soundness, facilitating a cohesive strategy through effective interagency coordination and catalysing commitment to the financial inclusion agenda.

The results of the financial inclusion strategy, as reported in the WBR (2010), indicate that more than 80 per cent of Malaysia's adult population have deposit accounts, which is one of the best globally. The bank branches nationwide has grown from 298 in 1990 to 2, 981 at the end of 2009 and the automated teller machines (ATMs) which was 1,193 in 1990 increased to 8,982 at the end of 2009. The SME's share of business financing provided by financial institutions increased from 21.2 percent in 1996 to 39.8 percent at the end of June, 2010. Micro financing outstanding through financial institutions grew rapidly form RM 84 million in 2006 to RM709 million at the end of June, 2010. These aggregates place

Malaysia among the top 10 countries out of 139 ranked by the World Economic Forum in terms of "Ease of Access to Loans".

ii. Financial Inclusion in India[5]: Financial inclusion is integral to the inclusive growth process and sustainable development in India but it is still an emerging concept. The Minister of Finance, Pranab Mukherijee explained that 80 percent of the public sector banks (PSBs) have already adopted the core banking solution that integrate financial inclusion, the remaining 20 percent are still being persuaded to do the same.

The major focus for lending in India is the small and medium scale enterprises (SMEs) as these are considered vital to fuel the engine of growth of the country. Lending to the SME sector surged from around Rs 36 billion in 2006 to Rs96.5 billion in 2010 with the lending ratio rising from nearly 8 percent to 29 percent in 2010. According to various estimates the SMEs sector contributes around 30 percent to the GDP and new incentives to the banking sector are being introduced to increase the size of the SME financing portfolio which at present is around 10 percent of the total bank lending.

There is also Kshetriya Gramin Financial Services (KGFS) which is a rural financial institutions outfit with the following characteristics:

- Limited geographical focus serving all households and enterprises' needs;
- Offering multiple basic financial services for clients;
- Thin front-end branches with process standardization, and backed by robust banking software and connectivity; and
- In-built biometric technology to build client history and lower transaction costs.

The KGFS has Wealth Managers who advise households and enterprises based on understanding of their needs and risks, as well as provide incentives to maximise the clients' financial wellbeing which the KGFS realise is the key to boosting its long-run returns. There is also Network Enterprise (NE) Approach which is a supply chain-specific investment fund. The approach assists in (i) directing investment in

[5] Information was obtained largely from IFMR Trust's Chairman of Advisory Council, 2008.www.nachiketmor.net

model enterprises and common back-end investment such as rural tourism, (ii) accelerate the supply chain and unlock debt capacity of individual enterprises, and (iii) use of equity capital higher up in the supply chain to estimate and reduce risks.

Despite the improvement made with ratio of one bank branch to 16,000 people, there is still a long way to go. The Minister of Finance urged banks to come with definite financial inclusion plans and the need for robust electronic transfers between bank branches located in the rural hinterland in order to make income and financial transactions seamless. Also, the Chairman of the Confederation of Indian Industries Taskforce on Financial Inclusion, Mr. Sinha informed that financial illiteracy is a key stumbling block to furthering financial inclusion. He believed that a pro-active approach will see the banking network expanding in an all-inclusive manner like the telecom sector.

The above takes us to the core of this paper which is looking at the challenges and prospects of financing inclusive growth in Nigeria.

V. Financing Inclusive Growth in Nigeria: Challenges and Prospects

The Challenges

i. We posited in the introductory section that Nigeria has not been consistent in charting its economic growth through development programmes grounded in systematic theoretical construct or planned path. The country's growth paths vacillate between received or externally induced growth programmes and so called 'home-grown' programmes. This inconsistency in policies provides a great challenge to developing financial architecture to support the growth programmes. For instance, the current national development programme couched Vision 20:2020 is not explicit on the kind of growth model the country is pursuing or that the Vision recognises inclusive growth as its official growth path (even though 2012 budget is hinged on inclusive growth).

If this is so, why is the Central Bank planning to finance inclusive growth? That is, the country must come out clearly to state that it has adopted inclusive growth model of development with adoption of appropriate policy measures. This is with the recognition that inclusive growth is a medium to long-term growth agenda and the CBN can then provide the financial architecture to achieve these.

ii. There is need for a strong and well developed and respected financial sector. Presently, there are institutional restrictions on financial institution spread across the country, resulting in high ratio of bank branch to population. Actually, the rural areas lack financial institutions and attendant financial services despite all efforts in the past geared towards monetising the rural sector. The financial sector is still under-developed not only in terms of spread but also in terms of array of instruments for operating the markets.

iii. Some intermediate financial institutions have been undermined and derailed. For instance, such financial institutions cooperative banks, community banks and specialised banks which are necessary intermediate inputs in financing inclusive growth have been negatively affected by corruption and financial reforms that created mega banks in 2004 without any regard for small and medium scale banks.

iv. Two key areas where inclusive growth policy should touch for efficiency and effectiveness are the agricultural sector and the SMEs. Both are facing challenges of neglect of policy implementation to the extent that they themselves need some transformation before finance can reach and assist them. While agricultural development requires land reform and education for large scale mechanised farming to take place, the SMEs are seriously affected by infrastructural decay, particularly availability and cost of energy.

v. The illiteracy level in Nigeria is very high such that almost half of the population have little or no education. Inclusive growth requires that large percentage of the population should be educated to be able to benefit from the attendant financial inclusion, which is key to its success.

vi. Public trust in the financial system has waned. This is particularly true for the under-served segment of the population who have at one time or the other suffered from liquidation and closure of some of the financial institutions (rural banks, peoples' banks and community banks or micro finance banks) with loss of their money. Re-establishing such institutions for the purpose of financing inclusive growth may not elicit understanding and support from this segment of the population. This is in addition to reports of bank robbery every now and then with concomitant perception of insecurity of depositor's fund. Lots of education and public relations will be required to change peoples' mind.

vii. The banks and other financial institutions, which are largely private sector business may not be easily convinced to adopt core banking solution that can enhance the success of inclusive growth. This in essence will affect the depth for financing inclusive growth. More so, financing inclusive growth requires medium to long term fund but most of our banks, including community and micro-finance banks, operate at the short end of the market to meet the profitability requirements of the shareholders.

viii. The issue of corruption and lack of corresponding measurable punishment that can serve as deterrent for future offenders. This has permeated the financial sector to the effect that people have lost interest in voluntarily keeping their money in banks as it creates fear in the public that their hard earned money may disappear, thus, preference to keep their money at home. Also, many corruptly enriched individuals now build vaults at home and keep both local and foreign currencies therein. This invariably makes it impossible for the CBN to know the actual money in circulation and affect money in circulation with concomitant multiplier effects.

ix. Inaccurate data also constitutes problems to planning. Although there has been, over time, improvement in data gathering, there is the need for the Central Bank and the Federal Bureau of Statistics to work together to present single data in many cases rather than disparity in data on the same variables from the two institutions.

The Prospects

The fact that we have been able to identify some challenges that can work against financing inclusive growth implies that the problems are half solved. It is not that the environment is totally not conducive to the promotion of financing inclusive growth, because some facilities and opportunities can be harvested to support the programme.

i. Employment generation, improved productivity and personal income enhancement are integral part of the current development agenda: Vision: 20:2020. This implies that the basic ingredient of inclusive growth, though not so emphasised, are already being implemented within the Nigerian growth model. The Central Bank can, therefore, persuade the operators in the financial system to key into the financial inclusion aspect of the Vision.

ii. The commercial banks with their network of branches can easily serve as the transmission route for providing finance to the under-served and vulnerable through special intervention funds provided by the Central Bank, Bank of Industry and other specialised banks.

iii. The strengthening of micro-finance banks through regulation and supervision, as well as their growth into rural communities provide additional institutional framework for financing inclusive growth.

iv. There are many cooperative societies, including interest free ones like Al-Hayat Foundation and As-Salam Foundation fashioned after Interest free banking, that are highly patronised by many small scale enterprises. These can also form nucleus of grassroots financial institutions for financing inclusive growth.

v. The automation of banking services through e-transact, particularly fast adoption and distribution of ATM and money transfer facilities have improved access to banking services.

vi. The rapidly growing use of cell phones and internet facilities have laid foundation for overcoming the spread of banking services to the underserved areas and involving even the urban poor. The need to use these facilities for banking services from now is imperative.

VI. Summary and Recommendations

This paper looks at challenges and prospect of financing inclusive growth in Nigeria. We review growth models from the classical to the endogenous and inclusive growth. It was posited that it is more often than not difficult to pin down various Nigerian growth and development programmes on any theory. Theory forms the basis for conceptualisation, measurement, evaluation and redesigning of the programme as implementation progresses.

Furthermore, we posit that there have been policy inconsistency rather than policy sustainability in the Nigerian economy. An example is the present situation where the same political party has been ruling at the federal level since 1999 when the country went back into democratic form of government yet we have had three different and seemingly independent growth policies namely NEEDS, 7-Point Agenda and now Vision 20:2020. This inconsistency does not augur well for a country desirable of making appreciable growth within the shortest time possible – 20:2020. In addition, we do not know the place of inclusive growth in the Vision 20:2020 development programme.

Notwithstanding the shortcomings that we noted above, it is desirable that an important policy organ like the Central Bank can direct or re-direct the Vision towards inclusive growth that has assisted many developing and emerging countries to overcome the issue of chronic poverty in recent times. Christine Lagarde, the new International Monetary Fund Managing Director, indirectly indicating the important role of central banks in economy policy formulation and implementation of countries said *inter alia.*

> In the event of a sharp downturn, the key will be to protect vital spending to mitigate the impact on growth, and to protect the most vulnerable. Because the scope for countercyclical fiscal policy has become more limited, monetary and exchange rate policy could be used more actively …When growth is strong and external conditions are favourable, it makes sense to rein in deficits and shore up reserves. This builds a cushion for the bad times and especially for protecting the most vulnerable (Lagarde, 2011).

It is important at this stage to propose the following as recommendations:

- The Central Bank may of necessity make the government to come out clearly in support of inclusive growth as a medium to long term growth strategy so as to sensitise the financial institutions to the need to have financial inclusion policies within their policy thrusts;

- The CBN itself will need to provide specific and general policy framework for financing inclusive growth in Nigeria, borrowing from the experience of other countries. This is an important assistance to the finance industry given the dearth of manpower to do same in the sector. Adoption of the policy can start with moral suasion;

- The CBN, in partnership with the capital market and the insurance industry, can work together to promote financial inclusion policies within the financial sector and among the real sector operators;

- The community banks and MFIs currently operate in the short end of the financial system, serving mainly as treasury or payment outlets for public and private institutions' workers. They should be strengthened, policy-wise, and with some incentives to extend their services to the medium and long term end which will be beneficial for financing inclusive growth;

- The CBN could partner with the Ministries of Education, Labour and Development Planning on organising workshops for workers, artisans and tertiary institution students on entrepreneurship, the art of financial management and planning;

- There is the need to re-invent the specialised banks for agriculture and cooperatives and that of small and medium scale enterprises;

- The numerous cooperative societies need a form of coordination that cooperative banks used to provide. A desired and deliberate effort to provide meeting point/coordination for these societies will enhance financing of inclusive growth, and

- It is also envisaged that the introduction of Islamic banking with interest free loans and potential joint venture projects that do accompany such type of bank could serve as impetus for rapid financing of inclusive growth in Nigeria. This has been the case with Malaysia which is one of the countries in the world with astounding financial depth and rapid industrial growth.

These suggestions are not exhaustive but they are meant to point out that financing inclusion is do-able and achievable if Nigeria decides to adopt inclusive growth as her path to economic development. Realising that inclusive growth path to development is a medium to long-term programme, patience, policy consistency and sustainability should be the watchword. Very importantly, we need to understand and take note of the import of the quotations (preceding the introductory section of this paper) from Christine Lagarde (2011) concerning economic diversification taking advantage of rising incomes from our natural resources and Dinesh Krishnan (2011) on the role of mobile banking and cashless payments for successful financial inclusion.

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