Bullion

Volume 36
Number 3 *Vol. 36 No 3 - Vol 37 No. 1 July 2012 - March 2013*

Article 6

3-2013

Financial inclusion initiatives and national economic development

Paul N. Eluhaiwe
Central Bank of Nigeria

FINANCIAL INCLUSION INITATIVES AND NATIONAL ECONOMIC DEVELOPMENT

PAUL N. ELUHAIWE
Director,
Development Finance Department
Central Bank Of Nigeria

1.0 INTRODUCTION

One major factor that has continued to constrain the pace of development today is lack of access to sustainable financial services such as credit, savings, payments/financial remittances and insurance. Some of the factors that have contributed to this lack of access include inadequate access points, high cost of financial services, low financial literacy, onerous requirements and lack of income. There is pressing need to address these constraints as a first step towards achieving inclusive finance, particularly among the poor and low income segments of the population. In Nigeria, efforts are being made by stakeholders such as the CBN, World Bank, National Poverty Eradication Programme (NAPEP), German Technical Corporation (GTZ), Enhancing Financial Innovation and Access (EfinA), Deposit Money and Microfinance Banks, among others to increase the level of financial inclusion. The aim is to empower millions of the unbanked Nigerians in the financial system to become viable economic actors. This paper presents a clear understanding of the term financial inclusion, its role in economic development, measures being adopted to forge financial inclusion by selected countries and the attempt being made by Nigerian to follow suit.

Accordingly, section two of this paper gives an overview of the concept of financial inclusion while section three highlights the relationship between financial inclusion and economic development. Section four presents country experiences on financial inclusion followed by highlights of the current state of financial inclusion in Nigeria in section five. Section six provides an insight into the National Financial Inclusion Strategy for Nigeria while the Strategy Implementation procedures are covered in Section seven. Section eight concludes the paper.

2.0 OVERVIEW OF THE CONCEPT OF FINANCIAL INCLUSION

The term financial inclusion has been described in various contexts depending on perceived peculiarities. Wikipedia encyclopedia describes financial inclusion or inclusive financing as the delivery of financial services at affordable costs to disadvantaged and low-income segments of the society. The Centre for Financial Inclusion offers a broader vision for financial inclusion. It defines "full financial inclusion" as a state in which all people who can use financial services have access to a complement of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients. This definition recognizes diversity in the institutional providers, services offered and users of financial services. The Bank of India defines financial inclusion as the delivery of financial services at an affordable cost to the vast section of the disadvantaged and low income groups. It identified the services to include credit, savings, insurance, payments and remittances. The Nigerian National Financial Inclusion Strategy defines financial inclusion as a state where adult Nigerians have easy access to a broad range of financial services that meet their needs at affordable costs.

The United Nations Development Programme 9UNDP) views an inclusive financial system as one that services all clients, which means, reaching out to poor and low-income people and providing them with affordable financial services tailored to their needs. It further views an inclusive financial system as one which recognizes the market potential/income generating opportunities in lending to the poor but excluded population.

The need to frontally reduce the number of the financially excluded group globally has accentuated the involvement of various global bodies in financial inclusion matters. The Alliance for Financial Inclusion (AFI), a network of policy makers from developing and emerging countries, has been leading the struggle to promote inclusive finance over the years. Founded in 2008, AFI recognizes, adopts and promotes the propagation of effective financial policies in developing nations in an attempt to reach the 2.5 billion impoverished people across the globe. It promotes peer learning among members to create room for interaction and knowledge exchange on financial inclusion matters. Its activities have focused on consumer protection, mobile financial services, agent banking,

*The views expressed in this paper are those of the author and do not represent the official position of the Central Bank of Nigeria or its Board of Directors.

financial integrity, micro-savings, data management, amongst other things.

On 10th December, 2010, the G20 countries launched their Global Partnership for Financial Inclusion in Seoul, South Korea. The partnership creates a platform for G20 countries and relevant stakeholders to foster financial inclusion. Their activities are being implemented through a comprehensive action plan focused on financial sector reform and development agenda. The Center for Financial Inclusion, an agency of the ACCION International has been helping to bring about conditions that would achieve worldwide financial inclusion through collaborations. The World Bank Group, International Finance Corporation and Regional Development banks and organizations have all been keying into financial inclusion initiatives. The World Bank, in particular, is collaborating with the Bill and Melinda Gates foundation and has constructed a Global Financial Inclusion Index (Findex), a database that provides indicators for measuring the use of financial services across economies and over time. Equally, various countries have been making commitments in their respective jurisdictions to promote financial inclusion. In October 2012, about 95 AFI member institutions from across the globe adopted the Maya Declaration on financial inclusion. Seventeen (17) of them specifically pledged and made commitments at the AFI Global Policy Forum held in Riviera Maya, Mexico to pursue specific goals and targets on financial inclusion. It was at that event that Nigeria pledged to reduce adult financial exclusion in the country to 20% in 2020 from 46.3% in 2010.

The achievement of financial inclusion goals requires the participation of an array of institutions which service large scale, medium, small and micro enterprises. In many countries, commercial and investment banks provide financial services for industries and large scale enterprises. The medium enterprise category are served by specialized institutions such as SME banks, agricultural banks and various guarantee and specialized financing arrangements. Those in the micro category have over the years, been served by informal financial institutions such as non-governmental organizations, financial cooperatives, credit unions, and specially licensed microfinance bank.

In order to arrive at appropriate financial inclusion strategies, policymakers have been converging at various fora to brainstorm on best policy alternatives and propositions. This has, accordingly, resulted in the formulation of various policies, programmes, as well as guidelines. The success of the initiatives vary from one country to another, dependent on the environmental, social, cultural and political conditions. Diversity of financial products plays a critical role in financial inclusion initiatives. This is based on the fact that economic groups need diverse financial services. For instance, savings are needed for the rainy day, and reduction of vulnerability to adverse impact of income vagaries. Savers also engage in investments that outweigh their balances, creating the need for loans or credit. In many countries, institutions place a lien on savings as a condition for extending credit. In order to manage these uncertainties and mitigate the risk of external shocks, micro insurance products have become part of the financial services offered to poor clients. Small premium payments by individual clients are used to defray the loans of those who might fail to pay owing to natural occurrences such as crop/livestock loss to diseases, ill health, fire and other hazards. Other services that are gaining prominence and acceptability include inventory collaterization, micro leasing, payment/remittance services and transfer.

As financial inclusion programmes continue to attract increasing attention of stakeholders, promoters are becoming concerned about critical factors that will ensure effectiveness and efficiency in services delivery. One of these factors is financial identity. Financial identity is being highlighted as a key risk management strategy in financial inclusion programmes. Given the low literacy levels of poor people in developing countries, and absolute lack of methods for registration of subjects, financial identity presents a serious hurdle to financial inclusion. While large transaction clients might be able to provide means for their identification such as identity cards, driving licenses and international passports, this does not apply to the poor people. The need to simplify the financial identity procedure for poor people is thus being stressed to pave way for them to enter the financial market place.

While striving to ensure access to financial services, the need to ensure that beneficiaries were protected from negative consequences of unethical practices of the providers of services has come to the front burner. Areas of focus in this respect include avoidance of over-indebtedness, fair interest charges, ethical conduct of staff of the financial institutions, appropriate loan collection practices, secrecy of client data/information and fair methods for seeking redress in event of dispute. Many countries such as South Africa and the Philippines had embarked on aggressive financial education and literacy programmes, while others such as Ghana were institutionalizing financial literacy programmes in their structural educational system.

Regulators, on their own part have been debating on how to maintain financial soundness and stability, encourage the provision of financial services to the poor and the not-so-poor, and protect the interests of the customers. In order to fully capture the activities in the financial system and intervene for the general good of the economy, countries have been exploring various regulatory approaches. For example, Cambodia employs a three-tiered approach to microfinance institutional practice. The first tier corresponds to the regulated institutions which were licensed and supervised by the country's central bank. The second, though not licensed, are registered by the Central Bank and subjected to light and simple regulatory ecosystem, while the third tier are those that carry out intermediation on very low scales and are not registered nor regulated.

3.0 FINANCIAL INCLUSION AND NATIONAL ECONOMIC DEVELOPMENT

Economic growth and development in any nation is propelled by the quantity and quality of goods and services provided, as well as their competitiveness. When every segment of the population engages in the productive process, growth and development will proceed at a faster pace. Empowerment for economic engagement is created through the instrument of finance. Financial services required by the population vary, depending on the economic stratum to which one belongs. Access to Finance for poor people could assist to alleviate poverty and promote development by enabling them to save, borrow and invest in the growth of the productive sector.

Financial Inclusion by providing access to finance for excluded groups would increase production of goods and services, support reduction of food related inflation, result in the use of low cost financial services that might have implication on low interest rates and efficient financial services. By bringing excluded people and section into the financial systems, it creates diversification of portfolio of financial institution, a step which will strengthen their risk management stance. Financial literacy, an important component of inclusion will support better delivery of financial services by educating the targeted excluded sects, ultimately creating informed financial service providers and better informed users. The combined effect of these provides for better credit and better portfolios, all of which will support institutional viability safety and soundness. Increased economic activities particularly from the MSME subsector would boost exports, increase foreign exchange earnings, stability of exchange rate and ability to manage foreign reserves. Increased use of mobile payments system will reduce expenditure of currency issues and management and this could free resources for other development of important sectors such as infrastructure, health, education and public utilities.

4.0 COUNTRY EXPERIENCES ON FINANCIAL INCLUSION

4.1 Mexico:

The Federal Government of Mexico has established the Development National Plan 2007-2012 as policy agenda for increasing the level of financial inclusion, strengthening consumer protection and enhancing financial literacy. The Secretariat of Finance and Public Credit works closely with the supervisory agencies, the Central Bank of Mexico, the National Savings Bank and legislators, amongst others to keep financial inclusion as a priority on the policy agenda. In 2008, the Mexican Congress approved a reform to their Banking Law in order to enable the use of non-financial entities to serve as banking agents and allow the establishment of Specialized Banks (Niche Banks) in order to increase access to the financial services.

The National Banking and Securities Commission of Mexico had issued the operational rule for the use of non-financial entities as banking agents to provide financial services in underserved regions. To expand their reach to unbanked rural areas, savings and credit institutions received assistance to become formal regulated institutions and accept deposits. They are supported by the new National Savings and Financial Services Bank. The latter provides back-office and banking services to these institutions in close cooperation with the Secretariat of Finance and Public Credit, National Banking and Securities Commission and the Secretariat of Agriculture, Livestock, and Rural Development.

4.2 Pakistan:

In Pakistan, there is a board based political commitment to financial inclusion with the State Bank of Pakistan at the forefront. A wide range of policymakers are supporting the commercialization of the microfinance industry, facilitating competition, innovating and diversifying product service delivery channels in the country. The First Microfinance Bank Limited has partnered with the Pakistan Post to use their infrastructure for expanded outreach. There are also financing facilities and funds for institutional strengthening for microfinance and guidelines for microfinance banks and microfinance institutions. Microfinance institutions share information about their customers through private credit information bureaux with necessary privacy safeguards. The State Bank of

Pakistan has released guidelines for regulation of financial services through agents and mobile phones. The Ministry of Finance has recommended consistent tax treatment for mobile banking operations to support national outreach to rural and remote areas. The Pakistan Telecommunications Authority has also regularized registration and annual license fees on satellite communication systems and other technologies that support outreach to remotely located clients.

4.3 Kenya:

The financial inclusion goal in Kenya's Vision 2030 strategy empowers the Central Bank of Kenya to play an active role in expanding access through regulating and supervising commercial banks. In 2009-2010, the Bank identified two areas which will have a dramatic impact on reducing the costs of delivering financial services through the banking system. These include the introduction of agents for use by the banks to deliver their services and the revision of current regulations and guidelines related to branch outlets.

Presently, Kenya is recognized as a pioneer in mobile phone financial services through the "M-Pesa" mobile payment system which had 17 million subscribers as at December 2011. It is the most developed mobile payment system in the world that allows subscribers to deposit, withdraw and transfer money easily with a mobile device.

4.4 The Philippines:

In the Philippines, technological and institutional innovations have enabled the growth of two different pioneering models of mobile phone financial services: the bank-based Smart Money (led by mobile network operator, SMART) and the non-bank-based G-Cash (led by mobile network operator, Globe Telecom). Though permitted to launch by the Central Bank of the Philippines on a "test and learn" basis at a time when little relevant regulation was in place, both models continue to flourish now under carefully crafted regulation. The Filipino e-money circular, tailored to the risks involved with the types of financial services in question, creates a level playing field for both bank and non-bank providers, while maintaining the integrity and stability of the financial system. Beyond the flexibility shown in permitting the original launch of Smart Money and G-Cash, the Central Bank of the Philippines has continued to make space for innovation, entering into dialogue with the industry to allow mobile financial services to evolve. For example, Globe Telecom has been allowed to use sub-distributors to act as cash-in/out agents for its G-Cash product. This is expected to increase the outreach and add significantly to the convenience and use of the G-Cash product. The Central Bank of the Philippines has also been involved in dialogue with the Rural Bankers Association of the Philippines to allow the launch of an innovative application using mobile money.

5.0 THE NATIONAL FINANCIAL INCLUSION STRATEGY FOR NIGERIA

According to the 2010 Access to Financial Services in Nigeria Survey carried out by EFInA, 39.2 million adults (46.3 % of the adult population) were financially excluded. The 2012 Survey of the organistion showed that the exclusion rate had declined across the geo-political zones of the country as follows:

Geo-political Zone	2010 Adult Exclusion	2012 Adult Exclusion	Percentage Improvement
North East	68.3	59.5	12.9
North West	68.1	63.8	6.3
North Central	44.2	32.4	26.7
South East	31.9	25.6	19.8
South West	33.1	24.8	25.1
South-South	36.4	30.1	17.3

Nationally, the exclusion rate declined from 46.3% to 39.7% or by 14.3%.

To adequately tackle the huge percentage of excluded adult Nigerians, the Central Bank of Nigeria in collaboration with stakeholders, launched its National Finacial Inclusion Strategy on 23rd october 2012. The broad target of the strategy is to reduce adult financial exclusion rate to 20% in 2020. Out of the 80% to be included, 70% would be in the formal sector and 10% in the formal sector.

In terms of specific financial services, the following targets were set in the strategy.

Services Types	Level in 2010	2020 Target
Payment Services	21.6%	70%
Savings Services	24.0%	60%
Credit Services	2%	40%
Insurance Services	1%	40% &
Pension	5%	40%

Furthermore, channels for outreach and provision of the services to increase in terms of units per 100,000 as follows:

Channel	2010	2020
Branch of DMB	6.8	7.8
Microfinance Bank Branches	2.9	5.0
ATMs	11.8	59.6
POS Mobile Agents	13.3	850.0
Mobile Agents	0	62.0

Key instruments to support the achievement of the stated targets were identified as follows:

- Agent banking – Agent banking is the delivery of banking services outside traditional bank branches, through additional touchpoints such as existing retail stores and petrol stations or via technology such as 'Point of Sale' (POS) devices and mobile phones.

- Mobile banking/ mobile payments – Access to financial services through mobile phones that are either directly linked to a bank account or use of mobile wallets as intermediary virtual money accounts.

- Linkage models – Enhancement of financial and business cooperation between conventional financial institutions (deposit money banks and development finance institutions)/government and microfinance banks/institutions for wholesale funding and on-lending transactions.

- Client empowerment – Increase of bankability of population through coordinated national financial literacy initiatives that are complemented by consumer protection.

In addition to the above, appropriate guidelines and frameworks on Tiered KYC requirement, agent banking regulation, national financial literacy framework, consumer protection, mobile payments guidelines and other cash-lessefforts are to be put in place.

6.0 IMPLEMENTATION OF THE NIGERIAN FINANCIAL INCLUSION STRATEGY

The National Financial Inclusion Strategy identified some key stakeholders that will be involved in the implementation and allocated roles and responsibilities. The stakeholders include: Federal Government, Central Bank of Nigeria, National Pension Commission, National Insurance Commission, National Communications Commission, Operators in the financial sector and Development Partners, among others.

The Financial Services Regulation and Coordination Committee (FSRCC), which will be reporting to the National Executive Council on the state of financial inclusion in the country, will be responsible for the coordination of initiatives across various regulatory bodies, give strategic direction for the implementation of the strategy and secure buy-in of government at the highest levels.

A Financial Inclusion Secretariat has been set up in the CBN to coordinate stakeholder activities towards increasing financial inclusion, collect and analyse financial inclusion data, track and monitor progress on financial inclusion and address capacity building initiatives.

At the Bankers' Committee Retreat held in Calabar, in December, 2012, Borno State was adopted for the Pilot Implementation of the Financial Inclusion Strategy. This was owing to the high financial exclusion rate in the state. The Bank, in partnership with the Borno State Government and Bankers' Committee, launched the Pilot Phase in February, 2013.

7.0 CONCLUSION

Financial inclusion programmes have attracted the attention of governments, regulatory authorities, mobile phone operators, policymakers and researchers. This derives from the understanding that every segment of the population of any country can contribute to growth process and goals. The society stands to gain more when all members are linked or empowered to participate in economic activities.

Making access to financial services affordable for the population is the central objective of financial inclusion programmes. Experiences vary from one country to another and efforts are being made by policymakers and non for profit making organizations (NGOs) to create awareness on financial inclusion issues. The Central aim is to encourage the propagation of effective and efficient financial inclusion strategies from one country to the other and ensure that the whole world benefits in the process.

In Nigeria, various policies and interventions affect financial inclusion goals and aspirations. Programmes are being promoted and propagated by government and its agencies at Federal, State and Local Government levels, Central Bank of Nigeria, dònor partners and licensed/unlicenced institutions.

The key motivation for investment in financial inclusion derives from

Key instruments to support the achievement of the stated targets were identified as follows:

- Agent banking – Agent banking is the delivery of banking services outside traditional bank branches, through additional touchpoints such as existing retail stores and petrol stations or via technology such as 'Point of Sale' (POS) devices and mobile phones.

- Mobile banking/ mobile payments – Access to financial services through mobile phones that are either directly linked to a bank account or use of mobile wallets as