FINANCIAL INCLUSION IN NIGERIA BENEFITS, CHALLENGES AND PROSPECTS

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ABSTRACT

In recent times, the opinions of practitioners, academics and others towards financial inclusion has to a large extent assumed a higher level of importance due mainly to their positive perception of its importance as a strong driver of economic growth in every facet of a developing economy. It is assumed that giving access to millions of men and women across the globe that are financially excluded will provide greater opportunities and possibilities for the creation of a very large repository of financial savings and greater wealth generations, thereby eradicating poverty and this leads to economic growth. It is also the belief that if the low income earners, comprising of the unbanked and under-banked, are included financially, it could promote enormous credit creation and capital accumulation. This is because these groups constitute the largest proportion of the population and therefore controls a very large chunk of the economy's idle funds, though held in very small amounts. But the accumulation of these small amounts can amount to a large pool of cheap long-term investable funds in the economy. This paper explored the benefits, challenges and prospects of this very important yet overlooked veritable economic driver whose usage is long overdue with the aid of secondary data. Findings revealed a plethora of factors such as little or no awareness on the part of the rural dwellers, unemployment, and host of others. It is recommended that government should embark on massive awareness campaign to sensitise the rural dwellers of the need to embrace financial service products and the financial institution managers must burrow into the hinterlands to harness these opportunities which are idling away.

Keywords: Financial Inclusion, Financial Services, Poverty reduction, Economic Growth, Nigeria.

INTRODUCTION

Financial inclusion is viewed as the provision of a broad range of high quality financial products, such as savings, credit, insurance, payments, pensions, etc., which are relevant, appropriate and affordable for a given population especially the low income segment of the society. The recent financial challenges observed across countries are centred on inability of everyone to have access to financial services, (Agwu & Carter, 2014). This phenomenon is referred to as financial exclusion (Bruhn & Love, 2014) which means that people does not have adequate and basic knowledge of how to use financial services available to them. Financial exclusion has been regarded as inimical to economic and developmental growth especially among developing economies (Agwu & Carter, 2014; Babajide, Adegboye, & Omankhanlen, 2015). Financial inclusion on the other hand implies that financial services are available to people of all geographical location, and everyone in that region have the same access to financial services (World Bank, 2013). Financial inclusion has received lot of attention in recent times from both researchers and policy advocates due to its substantial contribution to poverty

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reductions in developed economies (Bruhn & Love, 2014). It is argued that financially included individuals are able to make financial commitments ranging from better investment choices to launching of new businesses (Beck, Demirgüc-Kunt, & Levine, 2007). In terms of future financial stability, Han and Melecky (2013) submitted that better investment choices available to financially included individuals provide them with the option of having a better old age plan that sees them enjoy from their deposited savings. Despite the call by World Bank, Central Bank of Nigeria, and other financial actors for financial inclusivity among different financial stakeholders, and the measures are put in place to have larger portion of the country's population to be financially included; there is still huge gap in capturing all adult populations under the financial systems (Ghosh & Vinod, 2017; Babajide *et al*., 2015). This study therefore sets out to explore the challenges, benefits, and prospects in relation to financial inclusion in a bit to proffering recommendations for better policy making and implementation. This paper aims to further investigate the extent to which cultural levels, policy issues, and industry level challenges singularly or collectively affect the financial inclusion drives of both the government and the financial institutions within the Nigerian polity. As well as find answer to the ever-burning question stakeholders often ask – *"Why the conspiracy of silence?"* What measures can be put in place to safeguard those willing to speak out?

REVIEW OF RELATED LITERATURE

Financial Inclusion in Nigeria

There has been focus shift on Nigeria of recent because it is considered a typical specimen of Africa inclusive market (Meagher, 2015). Previously, Nigeria was considered unsafe for business due to its associating insecurities, political instability, ethnic conflicts, and hyperinflation (Raimi, Akhuemonkhan, & Ogunjirin, 2015), but has received influx of investors due to its distinguishing factor of high economic growth rates, high-risk-high-return investment, and increase population (Agwu, Atuma, Ikpefan, & Iyoha, 2014; Meagher, 2015). Despite the rising growth of Nigerians economy, poverty and economic inequality rate are still on the increase, with over 525 of the total population living below the one dollar benchmark (National Bureau of Statistics, 2010), and about forty-four percent (44%) living in extreme poverty. Due to these shrinking figures, there has been call for inclusive financial markets. Proponents of inclusive markets (Treichel, 2010; Odior & Banuso, 2012) argued that a financial markets that encourages entrepreneurial activities creates a pathway for increase in financial activities through entrepreneurship, thereby, recapitalising on the negative characteristics of increased population and turning such into an economic power. However, this paper sets out to evaluate how the benefits of inclusive market are perceived by those excluded in relation to inclusiveness challenges and prospects from Nigerian perspectives. Empirically, literatures available on financial inclusion have used data from World Bank Global Findex Database (2011) as a benchmark for their measures. Allen, Demirgüc-Kunt, Klapper, Peria, 2012) study identified personal factors that increase the chances of being financially included in 123 countries. Education and incomes were variables identified in their study as significant predictors of financial inclusion. Demirgüc-Kunt and Klapper (2013) comparative study of 148 countries indicated that there are significant differences in country level characteristics. They found that ownership of bank accounts, savings on a bank account, and use of credit are key indicators of

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financial inclusion. They also reported that differences in the income level among individuals among the studied countries influences their chances of being financially included.

Hariharan and Marktanner (2012) stressed that a strong statistical relationship exists between a country's financial inclusion and their total factor productivity based on the fact that financial inclusion is a significant factor for economic growth and development. The implication according to the authors is that, potentially, financial inclusion has the capacity to enhance financial efficiency, increase savings, and as well boost entrepreneurial activities, which is directly related to increase in economic growth. Mbutor and Uba (2013) study adopted a model to show how financial inclusion impacts monetary policy in the Nigerian political space between 1980 and 2012. Their findings showed a significant positive relationship, such that increase in financial inclusion led to increase in monetary policy effectiveness. In line with previous authors and those mentioned above, it was observed that within financial inclusion literature in Nigeria, no article has considered financial inclusion using the World Bank Global Findex Database. This article further contributes to financial inclusion literature by first comparing Nigeria with other MINT countries. These countries provide a standard benchmark for comparisons, as they are all major focus of financial investors as reported by Wright (2014). How is Nigeria different from other MINT countries in terms of bank account usage? What are the challenges to financial inclusion in Nigeria? Are there significant difference between Nigeria and other MINT? This article provides a data based answer that inform better platform for policy makers and financial managers.

Measuring Financial Inclusion

Measuring of financial inclusions in line with the World Bank Global Findex Database is important and the following provides an integrative understanding of financial inclusion in Nigeria and other MINT countries. The data were measured using the World Bank Data for HDI from the UN Development Programme. Afterwards the financial inclusion key indicators were examined. The challenges to financial inclusion in relation to the data analysed were also discussed. This section provides an integrative understanding of financial inclusion in Nigeria and other MINT country. The data were measured using the World Bank Data for HDI from the UN Development Programme. Afterwards the financial inclusion key indicators were examined. The challenges to financial inclusion in relation to the data analysed were also discussed.

Comparative Data for MINT Countries

Table 1
SHOWING THE DIFFERENT HUMAN DEVELOPMENT INDEX (HDI) OF MINT COUNTRIES

Country	Population	GDP (PPP)	GDP (nominal)	GDP per capita (PPP)	GDP per capita (nominal)	Exports	Imports	Trade	HDI
		-2014	-2014	-2014	-2014	-2014	-2014	-2014	-2015
Mexico	125385833	$2,125.3 billion	$1,282.7 billion	$16,949.70	$10,230.20	$427.894 billion	$477.260 billion	$905.154 billion	0.762
Indonesia	254454778	$2,676.1 billion	$888.5 billion	$10,517.00	$3,491.90	$200.953 billion	$231.576 billion	$432.529 billion	0.689
Nigeria	177475986	$1,049.1 billion	$568.5 billion	$5,911.20	$3,203.30	$91.530 billion	$80.160 billion	$171.690 billion	0.527
Turkey	75932348	$1,459.9 billion	$799.5 billion	$19,226.10	$10,529.60	$223.761 billion	$271.384 billion	$495.145 billion	0.767

Source: UNDP (2016)

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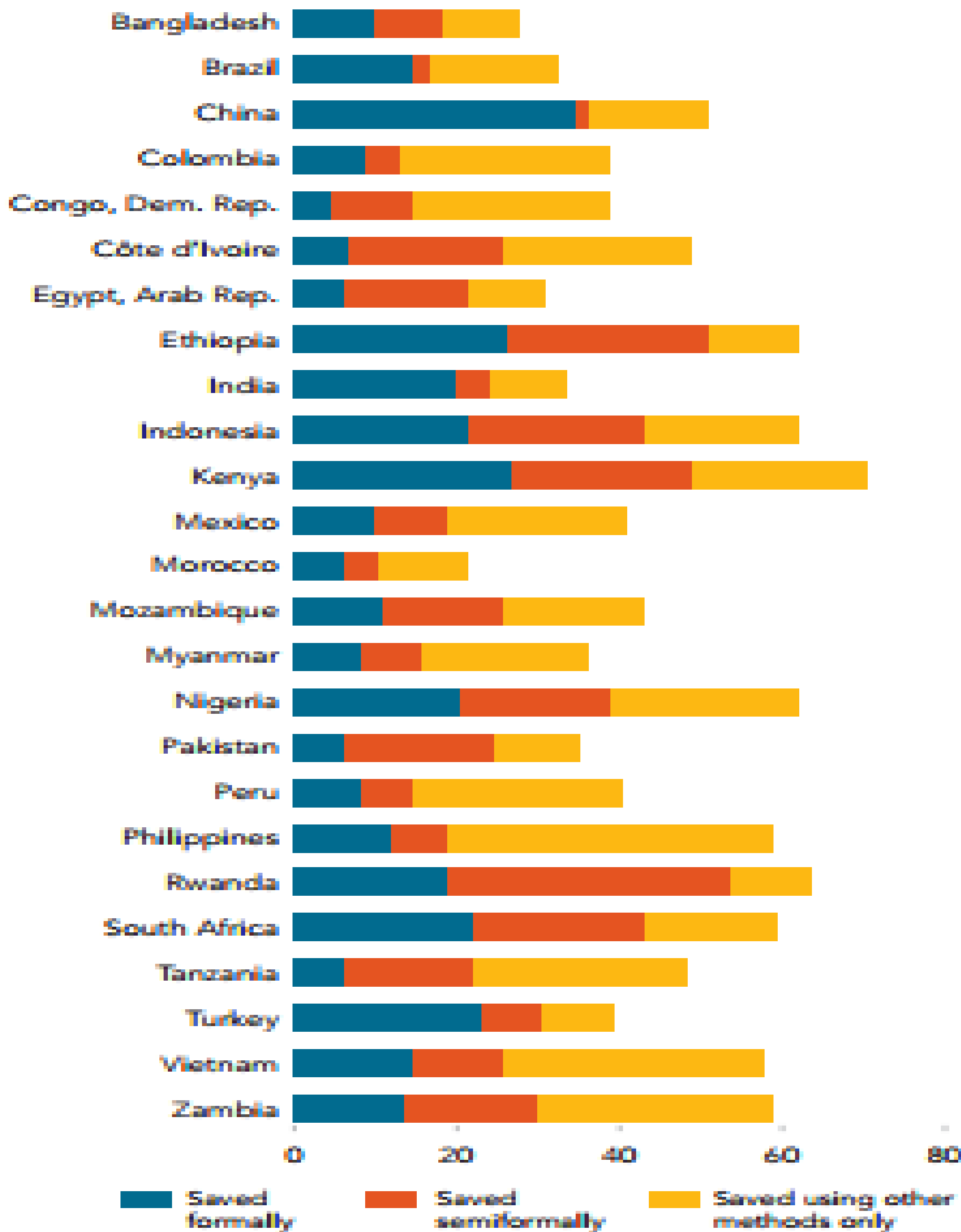

Source: Global Findex database (2017)

Figure 1
SHOWING THE SAVINGS BEHAVIOUR ACROSS DEVELOPING ECONOMIES

Table 1 shows a comparative data of developing economies (Figure 1) as well as the MINT countries projected to be a powerhouse of the world's economy (Durotoye, 2014). This

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data shows that there is significant number of excluded adults as most of the adults still remained unbanked or yet to be included in the formal economy. Comparing the Nigeria and other countries shows adults in Nigerians still prefer to save using other means of savings, and these reasons are accrued to the voluntary and involuntary proposition (Allen *et al*. 2012; Villasenor, West, & Lewis (2016).

Financial Inclusion Indicators

Financial inclusion indicators were obtained from the Global Findex World bank Data (2017). These variables (e.g. formal credit, formal accounts, and Formal savings) in Nigeria were compared in relation to other MINT countries. Table 1 showed that having a formal account may not only be related to MINT countries population's level of income, but also to their age, gender and educational level. This observation is supported by the findings of Demirgüc-Kunt and Klapper (2013) and Taiwo, & Agwu, (2016). Although Demirgüc-Kunt and Klapper (2013) reported that income was a significant factor for financial inclusivity among individuals, their study did not significantly account for variety of other factors (e.g. educational level, age, and gender) which we opined contributes for inclusivity among MINT countries. On the other hand, income could be insignificant when considering formal savings and formal credit. The level of education attainment is positively related to whether an individual will own an account or not. This may be due to the fact that educated people have the financial education and may also be equipped with information about the need to save, which are not available to people at the base of the pyramid. In the same manner, gender is regarded as a significant factor when considering formal account ownership. However, women are not less likely to own a formal savings account when compared to their male counterpart (Demirgüc-Kunt & Klapper, 2013). Age is a significant indicator of financial inclusion. It is reported that older people tend to make use of formal financial services when compared to younger individuals. Accordingly, financial advertisement and brand services are targeted at older generation, and this may account for why they tend to engage in using financial services than their younger counterparts (Allen, Demirgüc-Kunt, Klapper, & Peria, 2012; Taiwo & Agwu, 2017). These indicators propose an explanation for why Nigeria is still lagging behind in the quest for financial inclusivity, especially in relation to what motivates and demotivates individual from deciding to be included in the formal economy. According to the proposition by Allen *et al*., (2012), people engage in either voluntary or involuntary activities which exclude them financially. For instance, lack of money, religious reasons, and dependence on a family member who has an account are given as voluntary reasons for being financially excluded, while distance, cost of inclusion, lack of trust, and illiteracy towards documentation processes are considered voluntary reasons for being financially excluded.

Impediments to Financial Inclusion in Nigeria

Unlike other growing economies within the African continent where financial inclusion is technologically driven, the Nigerian space is still hampered by behavioural factors that fall into Allen *et al*., (2012) categories of voluntary and involuntary financial exclusion. For instance, MPESA in Kenya is being driven by the telecom industries and it is aimed at ensuring for rural financial inclusivity (Ndung'u, 2018). To this end, we qualitatively investigate the potential barriers to financial inclusion within the Nigerian population in a bid to getting behavioural

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responses that we categorised as themes in this study. One of the factors related to financial exclusion is income. Lack of money or stable income account for a larger portion of why individuals reject the option of being included in the formal economy (e.g. having a bank account), interviews conducted to this effect show the significance of this claim. According to one of the interviewees; *"How can I save when I don't have money? I will at least have something to eat before thinking of saving"*. This implied that higher level of poverty positively influence inability to save and the use of formal account. For instance, when asked how they get money from friends and families who may want to send them money from another location, one replied: *"If they want to send money to me from another state, I will ask my brothers or sisters to help me send their account number. I can always get the money from them anytime"*. This also shows that poorer individuals do not see any need to have an account provided one of their family members is an account holder. Unlike the rich people who consider safety, documentation, and trust issues during money transactions, poorer people do not put this into context when dealing with money transaction. According to another interviewee; *"The cost of opening and maintaining an account is high. You will be required to fill one paper or the other. It is easy to open and save money, but difficult to collect the money you willingly save. Bring and sign this paper or that paper is what you will be hearing from bank officials. Even when they know you are not educated"*. Education functions as a significant variable in investigating financial inclusion. While educated people considers varying factors before making their investment and financial choices, uneducated individuals do not consider whether a financial service is advantageous or not. They do not have options to consider from. This may be due to the inability to interpret the content of financial documents or the ambiguity of explanations provided by document interpreters. Although, religion may be a significant factor when investigating financial inclusion/exclusion within the Nigerian context, our study excluded this factor because of ambiguity in categorization and operational definition.

Benefits and Prospects

Financial inclusion has been found to be positively related to national development and it is considered beneficial when individuals are included in the formal financial economy (Meagher, 2015). One of the benefits associated with financial inclusion is that it creates personal finance for poor households, and also guarantees financial stability. Securing stable income is made possible because when everyone is financially included, there are huge contributions for formal financial service providers in terms of more stable deposits that help them withstand financial distress (Han & Melecky, 2013; Agwu 2018). Savings building is enabled through financial inclusion. In this case, included individuals can save in order to use their savings when it is needed, this can also avail them the opportunity to have access to financial services ranging from access to credit facilities to investments advices provided by the formal financial body (Ellis, Lemma, & Rud, 2010). During unforeseen circumstances (e.g. loss, trauma, disaster etc.), individuals can always fall back to their savings for better financial recovery option (Collins, Morduch, Rutherfors, & Ruthven, 2009). Financial instability which is considered a resultant effect of low cash flow in financial institutions are also reduced when there is maximum financial inclusivity. The accumulations of smaller savings from different poorer households leads to increase bank deposit base which in turn give rise to their financial stability in other to reduce risk of folding up, as evidenced in the study of Hannig and Jansen

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(2010). They showed that during macro-economic crises, financial institutions that serve poorer customers are more able to survive than their counterparts that have rich customers.

Conclusions and Implications

Using the Global Findex database, this article investigated the challenges, benefits, and prospects of financial inclusion in Nigeria. It was observed that financial inclusion is critical to economic development of a developing nation like Nigeria. This article also compared Nigeria with other MINT countries in relation to their Human Development Index (HDI). Also developing economy savings behaviour which is a key factor in financial inclusion were considered and varied. It was observed that financial exclusion occurred as a result of lack of interest of those to be included which are predominantly uneducated and poor. The reasons for the voluntary exclusion ranges from dependence on family members who has a formal account, to complaining about documentation and the bureaucracy associated with saving money in formal institutions. It is also observed that Nigeria is really lagging behind other MINT countries in terms of Human Development Index (HDI), as well as in terms of savings behaviour. Conclusively, financial inclusion in Nigeria as relatively compared to other MINT countries is relatively low. Also, the use of formal financial institutions for savings is as well low, which implied that individuals who have been financially excluded will always miss out on the packages offered by financial institutions. The policy implications of this findings is that efforts should be centred on ensuring frequent use of formal accounts as obtainable in formal economies. This should be done in order to discourage dependence on families or/and friends during financial transactions. To this end, it will enable individuals though uneducated or/and poor to familiarize themselves with financial services offered by the formal economy in order to enjoy the benefits (e.g. loans and credit) offered by financial service providers. Government and or policy makers must now wake up and take the bull by the horn by carrying out a strong education to this effect. Many rural dwellers are left to the mercy of the local money merchants. Practitioners and financial institutions can at best take their trades to the hinterlands as opposed to clustering within the urban areas. They can also organise the rural dwellers into groups or cooperatives in order to sell financial ideas to them as well as harvest the much they have. Government on their parts can encourage various financial institutions to engage in this these practices to ensure that the rural areas are penetrated. Academics can further research on better ways to ensure holistic inclusion of these unbanked set and ensure the growth of the economy for all.

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