Financial Inclusion in Nigeria

- The poorest people in Nigeria are included financially if at all mainly through informal savings clubs.
- Nigeria has ambitious financial inclusion targets, and its financial inclusion strategy is an evidence based approach; but it excludes at least two critical pathways for financial inclusion of the poorest in the Nigerian context – permitting mobile phone operators to provide regulated financial services; and linking informal financial services to formal services.¹
- Two others – weather indexed insurance and linking financial inclusion to social protection systems could also be relevant and warrant pilot programmes which could be scaled up if successful.
- A constant message emerging from stakeholder interviews is that poor people’s trust in banks and mobile phone operators is very low and must be built. This is perhaps a major reason why financial sector regulations have remained conservative, compared to Kenya’s, for example. Developing a secure platform for mobile money transactions in rural as well as urban areas will be critical to building trust.
- Given widespread mobile phone ownership, and network coverage, however, Nigeria should consider again allowing mobile operators to provide financial services, as is now the case in India, one of Nigeria’s comparator countries. In addition to the existing policy of expanding agent banking as rapidly as possible, this would allow a much faster expansion of financial inclusion. However, given the low level of trust in the mobile operators, this initiative would need careful regulation.
- Expansion of non-interest based financial services in mainly Muslim northern regions is a priority given the high levels of exclusion in the north and religious aversion to interest.

Background

The poorest people² are normally excluded from formal financial services because they have limited understanding of them, because of illiteracy, or because the usefulness of the products available for their needs is limited; as well as being actively excluded by financial service providers who see them as too risky and expensive to reach (Smith et al, 2015). Many countries have now signed up to ambitious targets, Nigeria’s Financial Inclusion Strategy (Central Bank of Nigeria, 2012, and Box 1, and Table 1) has an ambitious target of including 70% of the population in formal financial services³ by 2020 (from a base of 30%), and reducing the proportion of financially excluded from just under half the population to one fifth. This implies including many chronically poor households. The inclusion target is 70% for making payments through financial services, 60% for savings, 40% for credit, insurance and pensions.

While most of the global effort on financial inclusion has focused on extending credit, there is now mixed evidence on its efficacy in addressing the issues faced by poor people, so inclusion efforts focused on the

¹ However, the Association of Non-bank Microfinance Financial Institutions (ANMFIN) was inaugurated as the APEX association for Informal financial services providers in 2010. It currently works with the Central Bank of Nigeria to link informal and formal financial services providers.
² The poorest people are defined as either those whose consumption/expenditure is significantly below the extreme poverty line; or those who are chronically poor – poor over many years, a lifetime or inherit their poverty from their parents. There is significant overlap between these two groups.
³ This includes banks, micro-finance institutions (MFIs), insurance companies and mobile money.
poor is shifting has to savings and insurance as potentially better starting points (Smith et al, 2015).

This policy brief provides a situation analysis on financial inclusion in Nigeria, including a short analysis of how it may figure in chronic poverty, and processes of escaping poverty and impoverishment, and then goes on to assess the relevance of the four potential promising avenues identified in the global CPAN Financial inclusion Policy Guide (Smith et al 2015) for including the poorest people in Nigeria. This leads to a commentary on the e Nigerian Financial Inclusion Strategy.

**Box 1: Nigeria’s Financial Inclusion Strategy**

<table>
<thead>
<tr>
<th>Strategies:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agent banking – Agent banking is the delivery of banking services outside traditional bank branches, through additional touch points such as existing retail stores and petrol stations or via technology such as ‘Point of Sale’ (POS) devices and mobile phones.</td>
</tr>
</tbody>
</table>

**Table 1. Targets in Nigeria’s Financial Inclusion Strategy**

<table>
<thead>
<tr>
<th>% of total adult pop.</th>
<th>2010</th>
<th>2015</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments</td>
<td>21%</td>
<td>53%</td>
<td>70%</td>
</tr>
<tr>
<td>Savings</td>
<td>24%</td>
<td>42%</td>
<td>60%</td>
</tr>
<tr>
<td>Credit</td>
<td>2%</td>
<td>20%</td>
<td>40%</td>
</tr>
<tr>
<td>Insurance</td>
<td>1%</td>
<td>21%</td>
<td>40%</td>
</tr>
<tr>
<td>Pensions</td>
<td>5%</td>
<td>22%</td>
<td>40%</td>
</tr>
<tr>
<td>Branches</td>
<td>8.8</td>
<td>7.5</td>
<td>7.6</td>
</tr>
<tr>
<td>MFB branches</td>
<td>2.9</td>
<td>4.5</td>
<td>5.0</td>
</tr>
<tr>
<td>ATMs</td>
<td>11.8</td>
<td>42.8</td>
<td>59.6</td>
</tr>
<tr>
<td>POS</td>
<td>13.3</td>
<td>442.6</td>
<td>850.0</td>
</tr>
<tr>
<td>Mobile agents</td>
<td>0</td>
<td>31</td>
<td>62</td>
</tr>
<tr>
<td>KYC ID</td>
<td>18%</td>
<td>59%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Central bank of Nigeria (2012)

**Inclusion statistics and poverty dynamics**

The global Findex (Financial Inclusion) Database shows that, globally, just 23% of adults living on under $2 a day have an account at a formal financial institution. This proportion is 27% in South Asia, East Asia and the Pacific and just 6% in the Middle East and North Africa (Demirguc-Kunt and Klapper, 2012). Meanwhile, among people living in the poorest quintile in Sub-Saharan Africa, 12% have an account at a formal financial institution compared with 45% in the richest quintile. These proportions are 21% and 51% in South Asia (ibid.). Across all income quintiles, women in developing economies are less likely than men to have an account at a formal financial institution (ibid.).

*Figure 1. Financial inclusion and exclusion in Nigeria*

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Getting to Zero: Tackling Extreme Poverty through Private Sector Development

State of Financial Inclusion in Nigeria

- **Formally Banked**: Adults who have access to or use financial services supplied by Deposit Money Banks.
- **Formal Others**: Adults who have access to or use formal financial services and financial products not supplied by Deposit Money Banks.
- **Informal only**: Adults who have access to or use any unregulated financial institution or informal service such as cooperatives, savings clubs, pools, esusu, ajo or money lenders; as well as remittances (through formal channels); it also includes indirect access (via agents) and moneylenders.
- **Completely excluded**: Adults without formal or informal financial products.

Source: EFInA (2014)

Nigeria lags behind some countries in Africa in the provision of financial services (CBN, 2012). In 2014, 48% were served by formal financial services, compared to 80% and 67% in South Africa and Kenya (EFInA, 2014).

In terms of population distribution, of the 93.5 million adult population in Nigeria, 56.6 million are financially served while 36.9 million are financially excluded. Among the population which is financially served, 33.9 million are banked, 11.5 million Nigerians are served by other formal services, while 11.2 million are informally served. (EFInA Survey, 2014). Of the financially excluded, 42.7% were women, and 34% had no formal education (Figure 2).

Financial inclusion is most advanced in urban Nigeria, especially in the Southern parts of the country. 80% of the excluded live in rural areas. Northern Nigeria is particularly disadvantaged, with 68% of adults excluded in both the North-East and North-West regions in (date). This is more than double the percentage of excluded in the South West (33%) and the South East (32%) (Figure 3 and EFInA, 2010).

### Barriers to financial inclusion

According to some financial service providers interviewed for this policy brief, one of the challenges facing financial inclusion is the rate of population growth. With an annual population growth rate of 3.2%, Nigeria’s population is expected to reach 221.4 million by 2020. With the continuous rise in population, there is also a rise in the number of proportion of low income earners (mostly in rural areas, and especially in the North). While there has
been significant growth in both bank branches and the banked population, profitability considerations make for a poor geographical correspondence between the growth in banking and the growth in population, leading to the high level of regional variation shown in Figure 3. In any case, as demonstrated below, the poorest people make little use of banks, so the lack of emphasis on bank branch expansion in the Financial Inclusion Strategy is sensible.

Conflict has now also become a major barrier to inclusion, as witnessed by the slowdown in inclusion in the northeast.

A further reason for high levels of exclusion in the north is the Islamic prohibition of interest, and the population’s aversion to interest based finance. Greater inclusion therefore requires financial services based on Islamic Sharia such as those provided by Jaiz Bank Plc, Islamic Micro Finance and Takaful (Insurance). These services can be expanded by linking with Mobile Money and Agent Banking, capitalizing on the agent networks of mobile phone companies.
Getting to Zero: Tackling Extreme Poverty through Private Sector Development

**Figure 3 Financial access by Geo-political Zones**

<table>
<thead>
<tr>
<th>Geo-political Zone</th>
<th>2014</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>North West</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formally included</td>
<td>35.4%</td>
<td>22.5%</td>
</tr>
<tr>
<td>Informal only</td>
<td>8.6%</td>
<td>13.7%</td>
</tr>
<tr>
<td>Financially excluded</td>
<td>56.0%</td>
<td>63.8%</td>
</tr>
<tr>
<td>North Central</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formally included</td>
<td>48.9%</td>
<td>48.2%</td>
</tr>
<tr>
<td>Informal only</td>
<td>18.5%</td>
<td>19.5%</td>
</tr>
<tr>
<td>Financially excluded</td>
<td>32.7%</td>
<td>32.4%</td>
</tr>
<tr>
<td>North East</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formally included</td>
<td>26.1%</td>
<td>25.7%</td>
</tr>
<tr>
<td>Informal only</td>
<td>5.4%</td>
<td>14.8%</td>
</tr>
<tr>
<td>Financially excluded</td>
<td>68.4%</td>
<td>59.5%</td>
</tr>
<tr>
<td>South West</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formally included</td>
<td>62.6%</td>
<td>57.7%</td>
</tr>
<tr>
<td>Informal only</td>
<td>12.7%</td>
<td>17.5%</td>
</tr>
<tr>
<td>Financially excluded</td>
<td>24.8%</td>
<td>24.8%</td>
</tr>
<tr>
<td>South East</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formally included</td>
<td>63.3%</td>
<td>52.0%</td>
</tr>
<tr>
<td>Informal only</td>
<td>11.3%</td>
<td>22.4%</td>
</tr>
<tr>
<td>Financially excluded</td>
<td>26.4%</td>
<td>25.6%</td>
</tr>
<tr>
<td>South South</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formally included</td>
<td>52.3%</td>
<td>52.3%</td>
</tr>
<tr>
<td>Informal only</td>
<td>15.0%</td>
<td>17.6%</td>
</tr>
<tr>
<td>Financially excluded</td>
<td>32.7%</td>
<td>30.1%</td>
</tr>
</tbody>
</table>

Source: EFInA Access to Financial Services in Nigeria 2012/2014 surveys
The EFInA Access to Financial Services in Nigeria 2010 Survey identified five major barriers to financial inclusion in Nigeria namely: low and irregular income, physical access, financial literacy, affordability and eligibility. Among these, the most significant barrier (which most of the interviewees for this policy brief agreed with) were accessibility, eligibility and financial literacy (See Figure 4).

In terms of accessibility, the average distance to a Deposit Money Bank branches varies widely, from almost 60 KM in Kebbi State to less than 1 KM in Lagos state (Figure 5). When branch proximity is compared to rates of service usage, it is apparent that physical access to financial institution is a major contributing factor to financial inclusion and might even be the most important factor. ‘This is a significant challenge and the standard to meet perhaps should be the outreach achieved by provision stores – currently about three-quarters of all Nigerian adults (66.3 million people) can get to a provision store within 10 minutes.’ (Mukherjee and Modipo, 2011)

On awareness and understanding of financial products –financial literacy, this depends on the level, feature and complexity of financial products. Since financial literacy is low (even among the educated population), the EFInA survey reveals that friends, family members and trusted community leaders have the most influence in spreading financial services in Nigeria. Although, stakeholders interviewed indicated that the use of radio –electronic media –has been efficient in rural areas (where financial exclusion is more pronounced), however, there is still much grounds to break here.

Access to savings and other services by the poorest

Having access to secure savings has particular relevance for the poorest: it enables them to smooth erratic income streams so they can eat regularly and invest in children’s education; they can respond to the inevitable shocks (ill health, deaths, natural disasters, insecurity) if they have savings; and it enables them to invest in new tools and businesses to take them out of poverty (Smith et al, 2015: 18ff).

Savings behaviour (defined in the Global Findex as setting aside or saving money to cover future expenses in the past 12 months) also varies markedly both across regions and within economies. In Sub-Saharan Africa, roughly 40% of adults report saving; in South Asia, this proportion is around 20% (Demirgüç-Kunt and Klapper, 2012). This does not necessarily mean they have a bank account, though, as in Sub-Saharan Africa the majority of people who save report saving outside a financial institution. Looking specifically at saving with a financial institution, including banks, credit unions and MFIs, men, adults in higher income quintiles and those with more education are more likely to report having saved with one of these (ibid.). Figure 6 presents an analysis of the 2010 national household surveys in Nigeria, showing how having a bank account and saving with formal financial institutions, in both contexts, are dominated by the top two (or in the case of insurance) one quintiles.

Figure 6: Household access, and use of, financial services by consumption quintiles in Nigeria

Figure 7 (next page) presents analysis of the proportion of households in each consumption quintile that have access to different financial services. This reveals that the poorest households are more likely to have saved in an informal savings group than have a bank account, whereas the opposite is true for the richest households. Formal forms of insurance, meanwhile, are largely restricted to households in the wealthiest quintile.

Figure 8 (next page) analyses people’s trajectories into and out of the lowest consumption quintile. This shows that the chronically poorest – those who remain in the lowest consumption quintile between survey points – are unlikely to have a bank account or access to other formal services, but are much more likely to save regularly in savings clubs. Even then, less than a quarter of these poorest households do save in savings clubs.
Figure 7: Households in different consumption quintiles with access to financial services in Nigeria

* in the past 6 months
Insurance: life, health, property and motor vehicle specified in questionnaire
Sample size: 4437 households
Source: Analysis of Nigeria GHS 2010
Figure 8: Household access, and use of, different financial services according to poverty trajectory in Nigeria

*in the past 6 months
Sample size: 4437 households
Source: Analysis of Nigeria GHS 2010 and 2012
Four promising inclusion avenues: how do they work out in Nigeria?

The CPAN Global Policy Guide on Financial Inclusion: Enhanced Resilience through Savings and Insurance via Linking and Digital Technology puts forward four promising avenues for financial inclusion. These are (i) linking savings clubs with formal financial services; (ii) building a financial inclusion component into social protection systems; (iii) weather indexed insurance; and (iv) developing mobile money. Do these also have potential in Nigeria?

Linking savings clubs with formal financial services

Savings clubs are widespread in Nigeria, even among the poor, as the above analysis demonstrates. They are rarely linked with formal financial services, however. The global guide argues that they help poor people’s resilience coping with the expected and unexpected hazards of life as well as contributing to some escaping chronic poverty. Savings groups help achieve resilience for members because they are close to members (‘doorstep banking’), enforce savings discipline, enable bulky purchases using end of savings cycle lump sums or share-out amounts and provide reliable short term loans and emergency loans or grants (Smith et al, 2015).

Since three quarters of the poorest Nigerian people are not engaged in savings clubs, there is likely to be significant scope for more of the poorest people to be enrolled. This almost certainly means creating more savings clubs as well as strengthening those which exist. Unfortunately this is not an area of work given much emphasis in Nigeria’s financial inclusion strategy, nor in the operations of the majority of financial inclusion agencies. An exception, which demonstrates the potential, is in Box 2

Box 2. JHPIEGO’s Savings Clubs

This is a maternal and child health project in Kano, Katisina and Zamfara states which believes that the causes of maternal death in Northern Nigeria are associated with the cost of health care services, gender-based violence, women’s low status and lack of economic independence/decision making power. Savings across 40 women’s clubs are used for interest bearing lending and interest free loans for medical emergencies. Significant amounts have been collected and loaned for business development (mainly tailoring, knitting, dyeing and trading), adult education, and obstetric emergencies

Source: Segun (2010)

Linking savings clubs with formal financial services helps formal financial organisations to reach the poorest people, and also removes some of the limitations faced by the savings clubs. It is too costly for mainstream providers to provide savings accounts for the poorest people because: savings balances are low, transactions are small and there are large numbers of potential customers. The key issue for low income customers is to be able to deposit frequently and near home, so solutions have to be low cost and geographically accessible. If they support savings clubs, in the long term, banks gain new customers, some of whom will use bank services sufficiently for them to profit from the association; in the short term there may be limited profit opportunity, and banks may need to be encouraged by creative policy making to engage with savings clubs.

The limitations of savings clubs, which links to banks help overcome include: (i) the risk of theft of money from the lockboxes kept by a treasurer; treasurers face enormous responsibilities, and members are often encouraged to borrow to reduce the amount in the lockbox; (ii) members cannot save enough in one savings cycle to buy the bulkier purchases, so may have to delay a purchase until several cycles are complete; (iii) loans are not available towards the beginning or end of a savings cycle; and (iv) some shocks (eg environmental, insecurity) affect all members of a group and may reduce collective ability to save and repay.
There is a history of such links in Nigeria (Box 3). However, few development agencies or financial institutions are pursuing this today. An exception is ANMFIN which has over 6000 member associations and serves over 5 million poor. In 2014, they embarked on a nationwide capacity building campaign for NBMFI to access the Central Bank’s Naira 220 Billion Micro, Small and Medium Enterprises Development Fund.

Experience elsewhere in Africa and in India suggest that the results can be very good in terms of promoting members’ socio-economic conditions, especially in terms of consumption and nutrition, as well as the economic empowerment of women. CARE’s Village Savings and Lending Associations (VSLA), promoted across a number of countries in Africa for two decades, show linked VSLAs performing better than non-linked. And banks have adapted their financial products for groups, with lower deposit minimums, and minimum balances, group-based credit products, and flexible savings accounts. However, linking savings groups with formal financial services remains in its infancy in Africa. More partnerships between banks, mobile providers, governments and NGOs are required to achieve scale and lower risks, and much more evaluation of such arrangements to see what works best for the poorest people.

Box 3. History of linking savings clubs with banks in Nigeria

From a history of attempts to transform informal savings clubs – esusu – into formal co-operatives starting in the 1940s, it was found in the 1980s that esusu-based co-operatives out-performed those without an esusu base across many economic indicators. However, esusu which remained informal were even more effective in mobilising savings from members than esusu-based co-operatives. Those which convert did so to gain access to credit from state sources. Initial attempts to link esusu with banks failed, with widespread loan defaulting; but in the early 1990s more careful links between banks and esusu were fostered by the Central Bank of Nigeria with support from GTZ. ‘It issued a Model for Linking Savings and Credit Associations/Informal Groups and Banks; and by 1993, eight commercial banks had been won to participate, with 54 branches in 22 states. 313 groups were linked to banks, comprising 137 cooperatives and 176 informal groups. As agricultural lending was compulsory for commercial banks, they had no interest of their own, but found the AFRACA approach more effective and efficient than other approaches. UBA, one of the major banks, declared it would convert all its lending through 8,000 farmer groups to the AFRACA model. However, the program seemed to be stagnating in 1993; and the re-regulation of the financial sector on 1 January 1994, with interest rate ceilings far below the inflation rate, killed any spark of enthusiasm among the banks. Linkage banking remained a special project of minute dimensions, not integrated into the banks’ regular operations. A 1994 evaluation concluded that linkage banking through community banks, which were partially owned by local self-help groups, might be infinitely more effective than through commercial banks’ (Siebel, no date). Community banks have apparently continued to support such groups with good development effect, but faced some constraints due to not being treated equally to other banks as they were perceived to be, and were higher risk, with sub-standard assets (Tanko, 2007). The current status of such efforts is not known.

Linking social protection with financial services

Adding a financial inclusion component to a social protection programme – digital payment of benefits, formation of savings groups, financial literacy education, or transfers conditional on saving or taking out insurance – is recognised to be an important potential channel towards financial inclusion. If social
Getting to Zero: Tackling Extreme Poverty through Private Sector Development

Protection schemes reach the poorest people, this is probably the quickest way to enhance their financial inclusion. While making social protection payments conditional on saving or insurance is not a good idea, given the difficulties the poorest households have ensuring adequate day to day consumption, and not necessary as we know that they do save when it is possible.

A social protection programme’s commitment to digital payments and therefore the possibility that recipients will open a bank account requires that the programme administrators recognise the value of achieving financial inclusion for their beneficiaries, because it will mean that the programme takes longer to set up, and may require building an infrastructure from scratch. A partnership between the social protection organisation and financial institutions or mobile phone providers is needed to fully realise this synergy, and this also has to be built. Developing the infrastructure is the biggest challenge, but it may be that digital coverage and agent banking coverage between them will permit at least some regions of Nigeria to try this approach.

Nigeria has begun to invest in social protection. However, without a major policy initiative from the federal government – the 2004 draft strategy never became official policy, and a later National Insurance Trust Fund Social Security Strategy suffered the same fate - the efforts are both sporadic across the country, dependent on state initiatives, and suffer from weaknesses (see Box 4 on one of the largest schemes). ‘Federal government-led social protection includes three main programmes: i) the conditional cash transfer In Care of the People (COPE) (funded initially through the DRG fund) targeted at households with specific social categories (those with children of school-going age that are female-headed or contain members who are elderly, physically challenged, or are fistula or HIV/AIDS patients; ii) the health fee waiver for pregnant women and children under five (financed through the DRG fund); and iii) the community-based health insurance scheme, which was redesigned in 2011 because the previous scheme had design challenges (Holmes et al, 2011). Otherwise there is a patchwork of schemes in different states.

Box 4. The COPE Conditional Cash Transfer

The COPE CCT programme pays a monthly Basic Income Transfer (BIG) of approximately US $10 per child with a cap of US $33 for four or more children for 12 months to a designated family member. Most beneficiaries are women headed households. This transfer is based on the condition that participating households ensure their children maintain at least 80% attendance in school and take part in routine health immunization programmes provided by the government. Participating households are only enrolled in the programme for one year and are expected to ‘graduate’ afterwards – that is, exit the programme and live (above their vulnerabilities) happily ever after. A Poverty Reduction Accelerator Investment (PRAI) fund of approximately US $560 is given to each household at the end of their one-year participation. The PRAI fund is for establishing a business or trade with the intention that it will generate income for households and subsequently sustain them upon their graduation from the programme. However, the period of one year is too short to make a difference and the PRAI is too small to enable setting up a business under Nigerian conditions, according to one reviewer.

Source: Akinola (2014)

Although the scale of social protection coverage remains small, with implementation of a narrow set of instruments, and mixed quality of implementation (Holmes et al, 2011), it would be timely to include some pilot projects to explore the potential of including financial inclusion components in future social protection programming, while Nigeria is still developing a core set of social protection policies and systems.

Weather indexed insurance
Weather indexed insurance has significant potential to help low-income farm households manage the risks of flooding, drought and extreme temperatures – the main environmental hazards to which they are regularly exposed. Globally, there are several examples of pilot programmes from which lessons can now be drawn for scaling up. While governments and projects have subsidised the insurance premiums as a way of expanding coverage, longer term expansion can best be achieved by addressing the underlying obstacles – through customer education, effective delivery channels, reducing the (basis) risk that payments do not reflect actual losses through better data or product design, and through bundling with other services. Aggregators (buying or input companies, the contractors in contract farming) as well as governments wanting to protect low-income populations may also take out weather indexed insurance to protect their businesses (Smith et al, 2015).

Insurance is very limited in Nigeria: ‘Only 1% of the adult population (817,000 people) has an insurance product, despite experiencing a plethora of risks. Households use different mechanisms for coping with common risks such as death of a relative, serious illness and theft of household property.’ (CGAP, 2011) Drought, on the other hand, is a widespread risk faced by the poorest people, mainly in northern and central Nigeria. It would therefore make sense to make use of the lessons from weather indexed insurance schemes elsewhere in drought prone Africa and Asia, and develop a pilot, taking into account security considerations. This would usefully be widely evaluated and discussed in the media before moving to scaling up, in order to generate the trust which has been so absent from other financial services.

The insurance regulator, NAICOM, has been looking at this issue for some time but as yet there is no programme. A team from the International Financial Corporation has recently discussed this with NAICOM and there is a possibility that a programme would work with FADAMA, a World Bank Assisted agricultural programme in most parts of Nigeria.

Mobile money

Mobile money makes transfers easier – remittances and social transfers – both of which can play pivotal roles in poverty reduction. In particular evidence from Kenya tells us they help poor and vulnerable people withstand shocks. Mobile accounts are increasingly a channel to a range of financial services. They make financial transactions more convenient and safer, even if not always cheaper. Mobile systems can become rapidly inclusive – for example Tanzania’s coverage has shot to 48% from very little in 2008.

The spread and uptake of mobile money requires a favourable regulatory environment. A number of regulatory authorities, such as India and Nigeria, have shown caution in allowing mobile network operators to take the lead in providing mobile money services that allow users to both cash-in and to cash-out. With the payment banks legislation passed in India at the end of 2014, the government is relaxing this position, and hopes are high for a major increase in mobile money networks as a result. Similar regulatory reform elsewhere will be crucial to the growth of mobile money both as a payment system and a delivery channel for financial services (Smith et al, 2015: 42).

![Uptake of Mobile Money](source: EFInA Access to Financial Services in Nigeria 2014 Survey)
In some countries in Africa, mobile money has been used as a mechanism to achieve financial inclusion. Kenya’s MPESA programme has been able to increase access to formal financial services mostly in hard to access areas of that country. However, despite the potential of mobile money as a tool for financial inclusion, the statistics on mobile money in Nigeria are not encouraging. According to the EFInA Survey 2014, almost 12 million Nigerians (12.7% of the adult population) are aware of mobile money leaving a significant 87.3% of the adult population not. Only 0.8 million people currently use mobile money services.

More than half of all Nigerians live in rural areas where financial institutions find it commercially unviable to operate; so mobile money services have immense potential in Nigeria. 90 percent of adults own a mobile phone. The Central Bank of Nigeria (CBN) had by December 2014 granted licenses to over 21 financial institutions and companies to provide mobile money services. These include: Guaranty Trust Bank (GTBank), United Bank of Africa (UBA/Afripay), Stanbic IBTC, Ecobank, Pagatech, Paycom, eTranzact and a microfinance bank – Fortis MFB (see Box 5). There is much discussion among microfinance banks and MMOs on the provision of mobile money services using the microfinance banks’ strong networks. However, mobile money uptake in Nigeria still remains below 1 percent (i.e. about 879,000 active adult users). (Financial Inclusion Insights, 2013).

The major barriers are three: (1) few are aware of mobile money providers. (2) Limited knowledge about mobile money services, even among those familiar with mobile money providers; particular pieces of information people need include: the cost of mobile money transactions and whether a phone is needed. (3) Low level of trust in mobile money services. Only 12 percent of Nigerians have ever heard of mobile money and such awareness has been limited only to bank users. Existing advertising does not seem to be reaching the intended audience (Financial Inclusion Insights 2013). The CBN has initiated “targeted advertising” of mobile money services for financially excluded but more specifically for low income earners, as part of the National Financial Literacy Framework. To facilitate the opening of more mobile money accounts, the CBN has extended the tiered KYC regulations to mobile money operators. However, the focus of providers so far is on Tier 1 clients, which carry with them a low

Box 5. FORTIS Microfinance Bank as an Mobile Money Operator

Another Firm looking to profit from Nigeria’s emerging mobile banking industry is Fortis Mobile Money. The Company is an associate of Abuja-based Fortis Microfinance Bank, which was established in 2007. Fortis is the only company with a microfinance background that has thus received a mobile banking licence from the CBN. Its focus will be on providing mobile banking services to Nigeria’s unbanked in the rural areas as well as underserved city dwellers. It plans to have 100,000 agents across the country over the next year or so, a tall order by any measure.

“The game of mobile money is not going to be played in the boardroom or armchair. It is a game of getting into the trenches, setting up the agents, getting deals and just making services available in the rural communities, ” said Henry Nwawuba, CEO of Fortis Mobile Money. “For us, mobile money and agency banking is the next step in reaching the mass market and the bottom of the pyramid."

“For ... Fortis Microfinance Bank... it was increasingly challenging to provide basic financial services to the unbanked populations, which is naturally our constituents to access loans, savings and repayments. With mobile financial services, we are able to reach more people in currently underserved and un-served communities efficiently and effectively...” Nwawuba added.
daily transaction limit of Naira 3,000, and consequently high transaction charges (Box 6).

**Box 6. The cost of mobile money can be prohibitive**

Ms Badmus was a customer of Paga Tech, the most popular mobile money service among low-income Nigerians. She wanted to save money and believed putting her money away in a mobile money account would prevent her from spending it too freely. She chose mobile money over a traditional bank because of the small amounts she was permitted to deposit, as well as to avoid long lines at the bank.

‘If I have N100 or N200, I can save on mobile money,’ she says. ‘I am not sure the banks accept so little. They ask for N500 and more to transact.’ Ms Badmus transacted weekly through an agent, an experience she found positive. The agent was competent and trustworthy and provided satisfyingly fast service. But her experience with mobile money soured when she was hit with various fees, one of which she incurred when an unexpected expense forced her to withdraw some of her money.

“They said N250 for monthly charges and N50 for early withdrawal,’ she says. ‘I almost cried that day because it pained me a lot. I had N500, they deducted N300 and I had only N200 left.’ She found the experience so negative that she plans to stop using the service: ‘I want to leave Paga because the [...] charges are too much.’

Source: Grameen Foundation (2014).

The Financial Inclusion Insights survey also reveals that another challenge which mobile money services face in Nigeria is in terms of trust. During its survey, Nigerians were asked to rate trust in financial institutions against mobile money. The result revealed that only 21 percent of Nigerians interviewed actually trusted mobile money services. The survey further revealed that trust was even low among active bank users (25 percent).

One of the reasons is the history of fraud associated with mobile providers - overcharges for calls, airtime credits “disappearing” from customers’ balances, and being charged for undelivered SMS or unwanted ringtones.

The lack of confidence in mobile money services has led Jaiz Bank to opt for partnerships rather than introducing its own mobile money services. It hopes to partner with Mobile money operators in Nigeria who have solved this challenge.

**Nigeria-specific ways forward**

Financial inclusion has received a lot of policy attention in Nigeria – the Financial Inclusion Strategy (Box 1), the Financial System Strategy 2020 (FSS 2020), aimed at enabling Nigeria to become one of the world’s top 20 economies, and the National Financial Literacy Framework. Building an efficient, transparent and integrated payments system is the core of FSS 2020, which has direct relevant for financial inclusion – access to the payments system is a key performance indicator. And expanding financial literacy is a critical means of implementing the strategy. Key aspects of this policy response are: microfinance, promotion of a ‘cashless society’ by investment in the electronic infrastructure of financial services and the development of a national payments system.

**Microfinance** is a promising instrument to achieve financial inclusion in Nigeria. The provision of microfinance has been the focus of successive governments in Nigeria. The 2005 National Microfinance Policy has created a positive policy environment with a regulatory framework that has facilitated the growth of privately-owned microfinance institutions but also facilitates the participation of third sector institutions, cooperatives, non-governmental organizations, and self-help groups in the microfinance model. The framework was reviewed and revised in 2012. Since then there has been an upsurge of State Government owned microfinance institutions and this has ensured there is at least one MFB in a local government in most cases. New products are coming
onto the market, which will attract customers (see Box 7). Confidence in microfinance activities has also increased in recent time. The assets and liabilities of the MFBs have reached 190.7 billion NGN from just 55.1 billion NGN in 2006; also loans and advances given to MFBs also increased from a mere 16.0 billion in 2006 to over 67.6 billion by December, 2011 (CBN, 2013).

Box 7. ‘Takaful’ micro-insurance

With low rates of insurance in Nigeria (less than 2% of Nigerians buy insurance products) Takaful micro-insurance is one of the fastest growing segments of insurance in the world and has huge potentials for including many in Nigeria. Using Islamic insurance contract principles, policyholders contribute a prescribed sum to a common pool in the spirit of “bearing one another’s burden” and helping those in need. Takaful is the cooperative or mutual form of regular insurance. Although this micro-insurance product has Islamic contents (it is also built on the elements of solidarity, mutuality, and profit-sharing), it has been taken-up largely by non-Muslims.

Some challenges of implementing Takaful in Nigeria include a lack of awareness and mindset among potential customers; ineffective distribution channels and few committed agencies; few fund management and investment options; and the distrust of financial services. Despite these challenges, Takaful has been rolled out with specific prescribed guidelines for its operation.

Source: International Micro-insurance Conference, Abuja (September, 2013); Interview with NAICOM; NAICOM (2013)

The promotion of a cashless society is modernizing Nigeria’s payment system and will help financial inclusion, on the assumption that reduced banking costs and a more efficient payment system will encourage more people and business (even small ones) to embrace formal financial services. First introduced as pilot in some parts of Nigeria (e.g. Lagos), CBN Financial Inclusion report indicates that with this policy in place, the number of Point of Sale (POS) grew from 5,300 in June (2010) to 18,874 by September, 2011 and has further increased to 114,423 POS, dropping to about 82,549 in Dec. 2014. The focus is now on active POS to reduce the number of failed transactions. Although the cashless-policy has been extended to many States, there is still an aggressive push for increased deployment and activation of more POS and ATMs across the country which would eventually enhance financial inclusion in the country. The removal and latter re-introduction of ATM withdrawal charges has tempered enthusiasm for ATMs.

The introduction of a national switch platform to capture all electronic payments within the country; the automated cheque payment system designed to engender trust and confidence in the user; and the introduction of the Nigeria Uniform Bank Account Number (NUBAN) have all contributed significantly to an increase in the acceptance and usage of formal financial services and on the main enhance financial inclusion. According to the CBN National Financial Inclusion Strategy, 2012, by the end of February 2012, the value of all electronic transfers had reached an average daily amount of 70.2 billion NGN from a total of over 140,000 daily non-cash transactions via Nigeria Interbank Settlement System (NIBSS).

The creation of a Customer Protection Department at the Central Bank of Nigeria is another avenue to build confidence in the overall regulatory and service delivery system of financial services as well as provide redress for customers. Also this platform has been institutionalized to work with other stakeholders, like Deposit Money Banks, Microfinance Banks, Association of Microfinance and non-Microfinance institutions, NGOs and other groups to constantly build confidence among Nigerians for formal financial services. Overall, there has also been the desire to reduce cost of financial service provision through adopting an efficient distribution system and technology development. Such desire has been extended to micro-finance and
micro-insurance with the poor and low income earners as its target.

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The Chronic Poverty Advisory Network (CPAN) is a network of researchers, policy makers and practitioners across 15 developing countries (Bangladesh, Benin, Burkina Faso, Cambodia, Ghana, India, Kenya, Nepal, Niger, Pakistan, Philippines, Senegal, South Africa, Tanzania, Uganda, Viet Nam) focused on tackling chronic poverty and getting to zero extreme poverty and deprivation. It is looking to expand this network to the 30 countries with the largest numbers of poor people, and it is planning to launch a consultancy service to help countries ‘get to zero’. It has a ‘hub’, which is currently hosted by the Overseas Development Institute in London.