Position Paper

Comments of Development Initiatives Network (DIN) regarding the Exposure Draft of the National Financial Inclusion Strategy Refresh

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Development Initiatives Network (DIN) is an independent nonprofit working to achieve and sustain financial wellbeing for all Nigerians. Our priority is financial empowerment through financial literacy and financial consumer protection. In addition, we are involved in collaborative partnerships aimed at delivering enterprise education to specific targets such as youths, women and SMEs. Our activities emphasize policy analysis, campaigns and special events. We have been affiliated to the International Network on Financial Education (INFE) since 2011.

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1.0 Opening

The National Financial Inclusion Strategy (NFIS) aims to transform Nigeria into a high financial access and usage economy. Launched on 23 October 2012, its overall target is that by 2020 at least 80% of adults are financially included and at the minimum 70% use at least one formal financial product.

Unlike previous reforms aimed at improving financial access, the action agenda of the NFIS covers demand-side issues such as financial literacy and financial consumer protection.

Another critical difference from what obtained in the past is that the NFIS has established a governance structure, under the National Financial Inclusion Steering Committee and its Secretariat, for tracking progress in achieving the national financial inclusion targets.

However, based on available data and evidence, Nigeria is not on track to meet any of its financial inclusion targets whether by reference to products, channels or enablers.

What is increasingly clear is that the NFIS has serious shortcomings and with the fast approaching 2020 deadline, urgent modifications are necessary to close the gap between actual performance and targets.

We therefore welcome the publication by the Central Bank of Nigeria (CBN) of the exposure draft for the refresh of the NFIS and fully agree that the proposed modifications are in recognition of *"(i) the need for priority focus on the foundational constraints, (ii) the value that innovation can bring and (ii) the need to create an environment in which innovation that advances financial inclusion can exist and thrive, whilst being managed appropriately.*"

The refreshed NFIS will cover the period 2018 -2020.

2.0 Positive Features of the Exposure Draft

We approve of the following:

i. *Adoption of a first principles approach*
The aim is to future-proof the NFIS against policy, economic or technological changes. The proposal is that the NFIS should be prescriptive about its overarching principles and not its implementation methods or preferred business models, *(see, Chapter 3).*

ii. *Codifying five strategic priorities for the refreshed NFIS*
These are accelerating the uptake of digital financial services (DFS); rapidly growing agency networks nationwide; reducing know-your-customer (KYC) hurdles in opening bank accounts; providing a conducive environment for service delivery to the most excluded; and expanding the use of cashless platforms in government-to-private (G2P) and private-to-government (P2G) payments, *(see, Chapter 4).*

iii. *Clarification of mandates and priorities in 2018 - 2020 action plan*
A more granular action plan, which specifies responsible and accountable mandates as well as high, medium and low action priorities, *(see, Chapter 5).*

iv. *Strengthening financial inclusion governance and coordination structures*
The existing governance and coordination structure will be retained with the Financial Inclusion Secretariat serving as the administrative backend. However, it is proposed that financial inclusion should be made an agenda item in all National Economic Council (NEC) meetings with a view to ensuring that there is high-level buy-in from all sector regulators and other relevant stakeholders, *(see, Chapter 5).*

3.0 Recommendations

i. *Loosening the definition of financial inclusion*
The refreshed NFIS should completely jettison its definition of financial inclusion which only measures adult financial inclusion.

We consider that such a modification is necessary for the following reasons:

a. The current definition clearly conflicts with the strategic priority of expanding financial services to the most excluded such as youths and micro, small and medium enterprises (MSMEs).

b. It also does not make any sense to overlook youth financial inclusion given Nigeria's predominantly youthful population. This is because there is credible proof of the involvement of youths in income generation and entrepreneurial activities. For example, agriculture is the most popular activity for those aged 5 – 14 years with 26.9% of males being involved compared to 14.3% of females. This rises to 37.8% of males and 18.8% of females in the 15 -24 age group, *(NBS, 2016)*.[1]

c. The Nigeria Sustainable Banking Practices (CBN, 2012)[2] mandates banking institutions to provide financial services to unserved or underserved individuals and communities and in this regard, it specifically alludes to women, youths as well as MSMEs.

d. There is support for the view that the measurement of financial inclusion should cover every person and business *(World Bank, 2012).*[3]

Our position is that the measurement of financial inclusion in Nigeria and its definition in the refreshed NFIS should certainly extend to enterprises and youths. Regarding youths, it is

[1] National Bureau of Statistics. 2016. *LSMS-Integrated Surveys on Agriculture General Household Panel 2015/2016.*
[2] Central Bank of Nigeria. 2012. *Nigeria Sustainable Banking Principles.*
[3] International Bank for Reconstruction and Development/The World Bank. June 2012. *Financial Inclusion Strategies Reference Framework.*

instructive that the CBN's measurement of financial literacy in Nigeria covered persons aged 16 years and above.[4]

ii. *Advancing financial inclusion in non-banking financial markets*

It is beyond dispute that the 2012 instrument has been critical to the launch of financial inclusion initiatives in other financial markets. For example, takaful insurance and micro insurance in the insurance sector and micro pensions in the pensions sector. However, there is a real risk that with the emphasis on digital payments at least up till 2020, there may be a slowdown in the implementation of financial inclusion initiatives in the non-banking financial markets. This is yet another reason for supporting the proposal to make financial inclusion an agenda item at all NEC meetings. Furthermore, the refreshed NFIS should explicitly state that financial inclusion initiatives in the financial markets other than banking must continue and be sustained regardless of the push for growth in digital payments leading up to 2020.

iii. *Mandatory gender and age analysis*

Beginning in 2015, the annual reports of the Financial Inclusion Secretariat have laid bare the paucity of gender and age-based data about financial inclusion in all the financial markets. It will be clearly impossible to track progress in achieving gender and age-based targets unless the disaggregation of client uptake by providers is routine and consistent. We recommend mandatory gender and age analysis and sector regulators must regard strict compliance as part of their regulatory mandates. This means that targets and indicators under the refreshed monitoring and evaluation (M & E) frameworks should be designed with the collection of this disaggregated data in mind.

iv. *Improving financial literacy*

Financial literacy levels in Nigeria are primarily determined by age, location and level of education. We welcome the fact that one of the strategic design principles for creating a conducive environment for service delivery to the most excluded is the improvement of financial literacy. This approach is further reinforced by the findings of the baseline survey on financial literacy, which reveals that knowledge or awareness of financial products is the confidence dimension that is most problematic in Nigeria. We recommend that financial education programmes (FEPs) should be guided by the media usage patterns identified in this baseline study. Moreover, policy makers, sector regulators and providers must be willing to engage in collaborative partnerships with social partners such as nonprofits in the design and delivery of FEPs that will help to improve client uptake.

4.0 Concluding Remarks

The NFIS has helped Nigeria to achieve gains in closing the financial services gap. Ultimately, the challenge is to ensure that policy, regulatory and market action on financial inclusion delivers improvements in the quality of life of all Nigerians whether youths or adults. This must also be the objective of the refreshed Strategy.

[4] Central Bank of Nigeria. 2015. *National Financial Literacy Baseline Survey*.