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Basic Thoughts on Reversing the Trend of Financial Exclusion in Nigeria

By Martin Oluba N., PhD, DBA[1]

"Financial exclusion was a major reason for persistent inequality, the poverty trap and slower economic growth among developing nations, even as some government policies are not as effective in removing this barrier".
- Rommer M. Balaba

The Plight of the Excluded

Millions of adult Nigerians do not have any kind of dealing with financial institutions even at the community banking or cooperative and thrift society levels which consequently negatively affect their ability to manage their resources effectively. Two primary reasons for exclusion are hardcore poverty and illiteracy which invariably makes financial exclusion both a social and financial phenomenon. On the other hand, the inclusion of many Nigerians in the use of financial institutions and instruments will inevitably accelerate economic prosperity. Fundamentally, financial inclusion will increase the mobilization of financial resources for increased investment and invariably lead to overall macroeconomic growth and development. Santiago et al (2005) noted that in developing countries, access to financial services is typically limited and therefore providing wider access to such services can aid financial and economic development. It will also reduce the volume of currency outside the banking sector and enhance the development and use of financial products.

The reverse is a situation of financial exclusion in which the less well off in particular are shut off from mainstream money services and general credit. This eventually leads many families and individuals to being locked into a cycle of poverty and exclusion, or turn to high cost of credit or even illegal tenders, resulting in greater financial strain and unmanageable debt (HM Treasury; 2004). Based on a survey of the financial services environment in the UK by Sinclair (2001), the financially excluded respond by increased use of money lenders and other more expensive credit sources. Aside credit problems, since the excluded does not usually have incentives for savings or other forms of future financial guarantees such as insurance against risks and pensions, the economy suffer gravely.

Financial and Investment Exclusion Nexus

Agents save or borrow in order to make investments. Aside entrepreneurial smartness, the size and profitability of investment may well depend on how easy or difficult it is to either borrow or save. In order to mobilize own savings for investment, an individual should earn reasonably well such that after meeting the basic consumption needs will be left with enough for investment purposes. Secondly, the prevailing macroeconomic conditions should be such that the value of earned resources does not suffer inflation based attrition. Since thirdly, saving and investment is largely driven by the real rate of interest, inflation continues to matter. If the interest earnings on what is saved in the financial system is severely reduced such that it makes more sense consuming rather than saving the resources, the agent will do exactly that. Here the size of both the interest payment and the inflation are major determinants. An agent can only borrow to invest, if the interest rate is such that he can still make profit after making the required investment. In a typical investment appraisal scenario, the applicable discount factor determines whether it is worthwhile, making an investment or not. In addition to these factors is the level of uncertainty in the environment in which the investment is to be made.

Where these situations obtain in a relatively higher magnitude, the agents are excluded from making investments. Thus financial exclusion serves as the precursor to investment exclusion; which invariably results in less than desired levels of national growth and development. When those who intend to invest cannot do that, due to poor income or wage levels, high levels of interest rate, high inflation, credit restricting or rationing demands by banks such as 100% collateral cover etc only very few can meaningfully save or borrow to invest. Furthermore when much of the money that should be within the banking system are outside the system, less resources can easily be mobilized by the banks to lend to interested investors.

[1] *Martin Oluba, PhD, DBA is an Executive Director in Forte Financial Limited, Lagos Nigeria; an adjunct Professor of economics at the Swiss Management Center, Switzerland and Vienna as well as adjunct faculty (mentor) at the Northcentral University, Arizona. Send him your comments at martin@martinoluba.com or visit his website www.martinoluba.com for his views on other subjects of national concern.*

In Nigeria, financial exclusion typically takes this latter dimension particularly with respect to the huge illiterate class and majority of the un-employed and under-employed population. Aside the illiterate group who may be skeptical about using the financial system, majority of under-employed people barely have anything left to save after taking care of their basic needs.

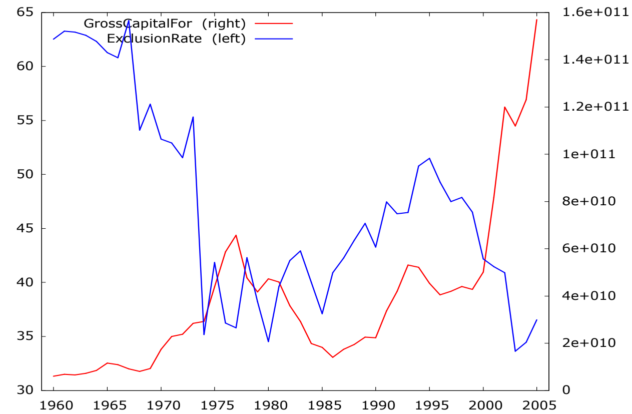
Thus whereas the act of being included or excluded is determined by the financial system, the forces that determine eligibility for inclusion/exclusion take place outside of the system. Although financial institutions may decide who to give credit based on their criteria, there is however, hardly any financial institution that will be opposed to inflows of funds under some legally defined criteria. To that extent, the system itself fails to be the agent of exclusion and lays the responsibility on the doorsteps of those who have primary responsibility for shaping the macroeconomic environment and who invariably include/exclude agents for investment purposes. That is the primary reason why the government should be involved in ensuring that more Nigerians are financially included. This is even more important because the size of financial exclusion has implications for the size of the gross capital formation. The more people are excluded financially the less the amount of mobilized investable resources which is available for lending for investment purposes.

Figure 1 below shows the inverse relationship between the financial exclusion rate proxied by the percentage share of currency outside the banking system to narrow money (M1). Investment responds to increasing exclusion rate by declining. This is also further confirmed by the following matrix of correlation coefficients between investment and the proxy measure of financial exclusion (see table 1).

Table 1: Matrix of Correlation Coefficients – Investment & Exclusion rates

S/No.	Year	Correlation coefficient
1.	1960 - 2005	-0.62
2.	1960 – 1969	-0.21
3.	1970 – 1979	-0.76
4.	1980 – 1989	-0.44
5.	1990 – 1999	0.62
6.	2000 – 2005	-0.77

Figure 1: Gross Capital Formation and Exclusion Rate (%)

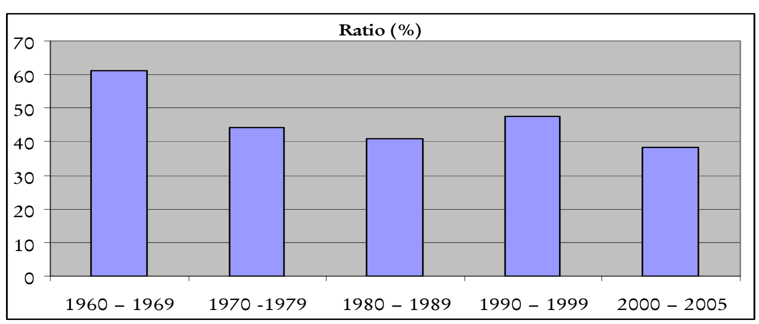


Source: Calculated from the IMF and World Bank Statistics on Nigeria (1960 – 2005)

Exclusion Patterns and Levels

We have used the ratio of the currency outside the banking sector (COBS) to the narrow money supply (M1) as a proxy for financial exclusion. This ratio reflects the extent of non-utilization of the financial system (its products and institutions) for financial activities. The trend in the ratio equally reflects a combination of (a) the development of the financial services sector (b) confidence in the financial services sector as well as (c) the real earnings capacity of the people. Thus using the ratio of the COBS to narrow money, table 2 shows the improving trend in financial inclusion in Nigeria primarily attributable to increasing levels of financial awareness.

Figure 2: Averages of Percentage Ratio of COBS to Narrow Money (M1)



Source: Calculated from the CBN's Statistical Bulletin (Various Issues)

The 1960 – 1969 Decade (average ratio - %: 61.1)

Nigeria was a highly cash-based economy. The financial services sector was at the infancy level of development with few operators within the system. The average depth of the financial system measured by the arithmetic mean of the ratio of broad money (M2) to the GDP within the period shows that this decade was 14% which was less than half the 29% depth of the decade of the 1980s. Furthermore, the earning capacities of the people were still quite lower than what obtains today. First is because of the level of education then compared to what we have today and secondly because of improvements in earnings resulting from the discovery of oil and the impact of technological advancement as well as many other factors. Productive activities were basically at subsistence levels with relatively little put aside as savings in the banks. The level of awareness of financial products and institutions were still quite rudimentary as there were few banks while the illiteracy and ignorance levels remained very high.

The 1970 -1979 Decade (average ratio - %: 44.3)

Decrease in the ratio is attributable to a combination of factors which included the increased earnings capacity of the citizens, increased literacy levels and growing financial services sector. In the late 1970s the CBN initiated a rural banking programme under which the commercial banks were instructed to establish branches in the rural areas. This stimulated the use of financial institutions and products and considerably reduced the level of financial exclusion. Many Nigerians were encouraged to enroll in primary and secondary schools after the civil war. This was given fillip by the free primary education of the 1970s. The enhanced earning capacity of the people due to the oil boom of the 1970s was another factor. The Udoji salary award of 1974/75 which increased salaries of civil servants by over 130% across board (with its ripple effects) also contributed to increased financial inclusion. However, in spite of this, the savings level was still low primarily because of the high levels of macroeconomic uncertainty due to government's profligacy. Figure 2 shows that the real rates on savings were negative for most of the period and would therefore not attract interest rate-sensitive savers.

The 1980 – 1989 Decade (average ratio - %: 40.9)

The trend of the 1970s continued in the 1980s and was largely boosted by the financial extravagance of the political class in the first republic which empowered many people and resulted in improved use of the financial system.

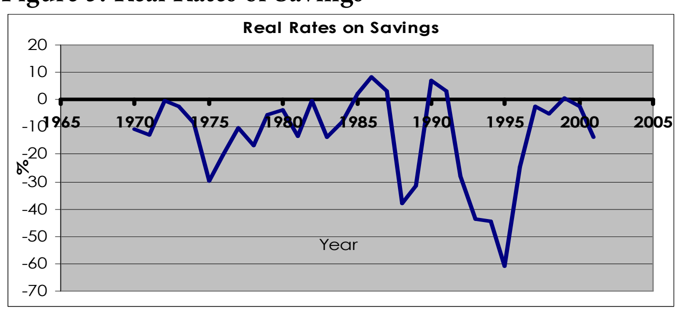
The 1990 – 1999 Decade (average ratio - %: 47.7)

By 1990, the bubble started to burst in the Nigerian financial system. Non-performing loans (NPL) increased sharply. Especially, the merchant banking sub-sector – where most of the foreign exchange speculators were concentrated – and the government-owned banks showed increasing signs of distress. In 1991, the Central Bank imposed a moratorium on new licenses. New Prudential Guidelines, introduced in 1990-91 made the extent of distress in the banking system even clearer. During 1992, several banks were scrutinized and delicensed. By mid 1993, political uncertainty following a failed transition to civilian rule triggered a bank run, which resulted in paralysis of the financial system, temporary closures and bank failures. Massive bank crises / distresses of the 1990s, increased financial fraud wrought through the financial sector. Coupled with the sharp fall in the real balances of the people due to very high inflation rates as well as the prevailing absence of the rule of law, confidence in the financial sector depleted thereby causing heightened level of the currency outside the banking sector to its pre-1970 levels.

The 2000 – 2005 Decade (average ratio - %: 38.2)

Gradual return of confidence in the financial services sector following various economic reforms of the government as well as the increased deepening of the financial sector, improved/increased bank products, earnings capacity, employment etc.

Figure 3: Real Rates of Savings



Source: Calculated from the CBN Statistical Bulletin (several issues)

Cross- Country Comparisons

We selected a few countries outside Africa for comparison with Nigeria. These countries include Switzerland, United States, Venezuela, Pakistan, India and Argentina. Table 3 presents the exclusion rates for the various decades since 1960.

Table 3: Exclusion rates (%) in selected countries

Period	Switzerland	USA	Venezuela	Nigeria	Pakistan	India	Argentina
1960 – 1969	40.52	17.91	33.67	61.11	62.10	67.32	53.36
1970 – 1979	39.41	20.86	23.09	44.27	47.58	55.92	39.47
1980 – 1989	36.44	23.11	20.42	40.87	48.01	58.34	58.69
1990 – 1999	31.24	30.91	26.09	47.71	45.06	58.90	66.15
2000 - 2005	20.85	49.10	25.54	38.19	41.07	58.20	60.47

Source: Calculated from IMF statistical database

Aside the United States and Argentina, the rest of the countries have consistently reduced the financial exclusion rates. For the United States, what is most important is the first three decades which has relatively low exclusion rates. The heightening exclusion rate observed is actually a consequence of the use of narrow money as the denominator for this calculation. Whereas this may be applicable in other countries, the sophistication of the American financial system which necessitated corresponding higher money definitions sets it apart. Whereas we have used narrow money for uniformity of analysis, the M2 is most appropriate for the United States economy as more quasi money instruments are used in transactions. This means that the share of currency in circulation to demand deposits will be increasingly higher with this level of sophistication. Same cannot be said of Argentina where the level of macroeconomic instability in recent times has led to increasing loss of confidence in the financial system.

Eliminating these two countries, Nigeria has not done badly in comparative terms. However, the trend lines show that the rate of progress in reducing the exclusion rate is a little less than Pakistan and Switzerland but better than India and Venezuela. The challenge therefore is how to hasten the rate of decrease in the exclusion rate. Or put another way, how to increase the financial inclusion rate and consequently increase the size of gross capital formation which is fundamental to our economic growth and development.

Institutional Involvement in Financial Inclusion Process in Nigeria

Beyond the government and the banks, many institutions that are hitherto involved in the inclusion process are the community banks, microfinance institutions, the international development partners, cooperative societies etc. Strategic outcomes also vary and may be categorized as direct with short term results (in the case of cooperative societies) or indirect with medium term to long-term results as in the case of banks and the development partners. Government's actions in this respect can be generally categorized as falling between direct and indirect with medium to long-term result expectations.

The banks on the other hand are driven by profitability and the creation of stakeholder value in the entire process of getting more persons included in the financial flow process. This incentive remains the primary goal in its marketing of the surplus end in the intermediation process. For the banks, inclusion only commands strategic importance if (a) transaction costs are reduced such that more deposits are mobilized more efficiently and (b) the lending capacity is enhanced.

Approach, expectations and typical strategic outcomes determine the nature of involvement of institutions in Nigeria.

Nature of Government Participation in Financial Inclusion

The lip service approach of the government of Nigeria in the pursuit of poverty reduction has not substantially helped in the financial inclusion of many Nigerians who are below the poverty line. However, the banking sector reform, the spate of capital raising, as well as the very good performance of the Nigerian capital market collectively heightened in financial services and products. Aside the reforms, there is also the financial legislation on the issuance of dud cheques which the discouragement of is receiving reasonably good attention from the government and the operators in the financial sector. Thus there are at least four principal ways in which the current government appears to be involved in the inclusion of Nigerians in financial sector activities. These include (a) the Universal Basic Education (UBE) (b) Employment creation initiatives (c) Licensing of microfinance institutions and (d) Heightened implementation of the legislation against the issuance of dud cheques. All approaches are defined to achieve clearly determined goals but are however expected to produce medium-term results.

Universal Basic Education

The UBE (a dusted model of the 1976 Universal Primary Education) is another mass-oriented education program. Free primary education is undoubtedly a catalyst which will result in greater participation of the rural poor and the female sex in national development. It is clear from sufficient evidence that education is a major determinant of earning capacity of an individual. People with good education tend to earn higher incomes. Education is also a necessary condition for understanding and use of financial institutions and processes to ones advantage. According to the AfDB/OECD (2006) African Economic outlook for 2005 and2006 "increased spending on education and Universal Basic Education (UBE), aimed at providing free education for all pupils at the primary and junior secondary school levels, has enabled the rehabilitation of schools and contributed to improvements in school enrolment rates. The total gross primary-school enrolment rate increased from 98 per cent in 2000 to 120 per cent in 2005, while the total secondary-school enrolment rate rose marginally from 34 to 36 per cent during the same period". Increasing enrollment in education should therefore increasingly produce more literate Nigerians (a) to work in the financial institutions (b) to earn more through improved skills and competencies (c) increase the awareness of the use of financial institutions and its products.

Employment creation initiatives through macroeconomic reform

Government's employment initiatives which are embedded in its reforms have led to some levels of direct financial exclusion in the public sector and indirect financial inclusion in other sectors. Through its reform of the public sector as well as the privatization of hitherto government enterprises, thousands of civil servants have lost their jobs. Majority of those retrenched are the low-level cadre whose retrenchment clearly implies financial exclusion at least in the medium term pending when they are able to secure another means of livelihood. However, the implementation of policies that are targeted at (a) improving the value-adding capacity and economic profitability of the private sector (b) the growth of new firms particularly the small and medium scale enterprises as well as (c) outright divestiture of the public sector from ownership of businesses is expected to create more employment and financial empower/include more Nigerians.

Establishment of Microfinance Institutions

Microfinance institutions have grown phenomenally in Nigeria in the last ten years. A study by Anyanwu (2004) on the outreach performance of microfinance institutions in Nigeria reveals that the operations of MFIs have grown phenomenally in the last ten years, driven largely by expanding informal sector activities and the reluctance of banks to fund the emerging micro enterprises. For example, one such microfinance organization, Lift Above Poverty Organisation (LAPO), Nigeria which committed itself in 1999 to becoming a profitable microfinance institution serving Nigeria's poorest women micro-entrepreneurs is currently (2005) serving 54,460 clients (98% women, 47% rural) with outstanding loan portfolio of US$5.1 million.

Such performance has received government's nod and makes policy prescriptions in that direction particularly with the less than desired performance of the Community banks. The survey by Anyanwu (2004) which was funded by the CBN indicated that there were 160 registered MFIs in Nigeria in 2001, located in 28 out of 36 States in the country. They operated largely in the rural areas. Their activities have expanded phenomenally in the last ten years, in terms of size, branch expansion, staffing, volume and value of both credit and savings. Apart from the emerging trend that microfinance has become a commercial enterprise with some return on capital, the driving force is the desire to extend financial services and improve the living conditions of the poor (Anyanwu: 2004). It is in line with this kind of findings that the federal government is committed to the licensing of more microfinance institutions to directly target the informal sector which is largely composed of the poor. Microfinance institutions is therefore one of the most potent forces for financial inclusion adopted by this administration.

Legislation against Dud Cheques

A non-poverty-reduction initiative that will have great impact on financial inclusion is the increased implementation of the legislation against the issuance of dud cheques. Recently the Nigerian government strengthened the law against the issuance of dud cheques. The Economic and Financial Crimes Commission also working with Nigerian banks have started collecting information on serial dud cheque offenders for possible prosecution. The implication of this measure is the prospect of renewed confidence in cheques and other financial instruments which will invariably reduce cash based transactions. Reduction in cash transactions means increased use of the financial services institutions. Thus many illiterate, bank-averse merchants are likely to be financially included as the confidence in the use of bank instruments will have increased. Tied to this is the double confidence in the banking sector as a result of the concluded bank consolidation and recapitalization exercises.

Role of Credit Cooperative Society Groups in Inclusion

Cooperative societies have one of the most direct institutional framework for financial inclusion of its members. Although it shares a lot of operational similarities with the microfinance institutions, it departs at the point of appropriation of benefits. Whereas the microfinance institutions appropriate profits from lending to its clients cooperative societies benefit directly by achieving either collectively shared profits or cost reductions. Usually the strategic outcomes of financial inclusion in this instance are more direct and short-term. For instance, the incentives of getting additional credit from the banks if certain conditions are met by the cooperative groups – part of which includes periodic deposits with the banks – have increased the inclusion rate particularly in the rural areas and among the informal sector. Members get included in one or more of the following ways (a) when they are collectively required to either carry out productive activities together for which the entire or part of the proceeds are banked or (b) when members are required to contribute certain amounts of money that would form part of their contribution in other to get credit from banks and (c) when members liability to banks requires that they pay into the bank part or all of their earnings on periodic basis in order to offset such liabilities and so on.

Cooperative groupings have become quite prevalent at both the rural and urban areas in Nigeria. The banks encourage it mainly (a) because it is one of the ways of cheaply mobilizing deposits at retail levels (b) because cooperative groups act as checks on their members' potentials of credit default. The donor agencies encourage and use this medium quite extensively because of its efficacy in poverty reduction. The government supports it for the same reason.

Role of Community Banking

Albeit the perception of failure of the community banking system in Nigeria, this financial institution continues to play tremendous role in the process of including the informal sector along with the credit cooperatives and other microfinance institutions. For instance whereas most commercial banks are not willing to transact with businesses that are not limited liabilities, community banks do accept to engage in financial transactions with many operators at the informal sector level. It is important to note that incorporation of businesses in Nigeria imposes tremendous costs that prevent many business entrepreneurs from getting their operations formally incorporated and by so doing being excluded by the commercial banks aside on an individual basis if at all. Table 3 presents information on the number of days and the corresponding cost of starting a business in Nigeria.

Table 4: Registering a Business in Nigeria

Nature of Procedure (2006)	Proc #	Duration (days)	US$ Cost
Check the availability of company name with the Corporate Affairs Commission	1	2	1.30
Prepare the requisite incorporation documents and pay the stamp duty	2	7	0.00
Notarize the Declaration of Compliance (CAC Form CO1)	3	1	1.30
Register the company with the Corporate Affairs Commission	4	18	197.76
Register with the Federal Board of Inland Revenue Department of the Ministry of Finance for income tax	5	4	0.00
Register for VAT	6	2	0.00
Register for personal income tax PAYE at the State Tax office	7	2*	0.00
Visit from a local government inspection officer and obtain business license	8	7*	0.00
Pay fees at a designated bank	9	1*	104.01
Totals:	**9**	**43**	**$304.36**

Source: World Bank/IFC Doing Business

Table 4 shows that the activities of the Community banks in admitting the informal sector removes a huge fee-based financial-inclusion barrier of the range of between US$200 and US$305 (i.e. between costs of incorporation with the Corporate Affairs Commission and the overall cost of registering a business in Nigeria). It is important to note that this cost is almost the average of the total funds deployed in trade or other businesses by over 80% of the operators in the informal sector. The CBN in its 2004 Annual Report and

Statement of Accounts noted that "the total number of community banks (CBs) in operation declined to 753 at end-December 2004, from 774 in 2003 following the delisting of 23 CBs that had closed shop. Of this number 615 community banks reported on their operations to the CBN in 2004, compared with 564 in the preceding year. The number of the reporting banks during the year indicated an improvement relative to 2003, as the total assets/liabilities of the 615 reporting community banks amounted to about =N=34,162.3 billion, representing an increase of 19.1 per cent over the level in 2003.

Place of Rural and Retail Banking Operations in Financial Inclusion

The consciously put-in-place rural/retail banking marketing incentives of commercial banks to operators in the informal sector have significantly improved financial inclusion. Most commercial banks have retail banking departments of which the marketing of the informal sector operators is typical of their operations particularly in semi-urban and rural areas in Nigeria. Some of the incentives include assistance in the formation of cooperatives through which the bank offers credit to the members of such cooperatives. Conditions of membership typically serve as checks on the possibilities of credit default by the members. This strategy has worked well in areas where commercial agriculture and agro-processing thrives. Example is the local rice farmers in Abakaliki. Cooperatives set up through bank assistance leads to the channeling of credit from various sources such as donor agencies to these farmers who in turn become bank customers.

Trends in Financial Exclusion in Nigeria

Whereas government's pursuit of the achievement of the various macroeconomic goals leads to the establishment/encouragement of institutions and processes for poverty reduction and consequent financial inclusion, it is equally evident that government's policies and programmes oftentimes greatly exclude the citizens financially. Few examples are presented below.

Real interest rates on deposits and savings

Although there appears to be little evidence that many Nigerians save because of the interest rate, the low income earners whose time preference are usually longer and whose income may not afford other higher-priced securities investments (e.g. shares, bonds) will definitely be interested on the earnings rate. The rate on deposits or savings is therefore central to the choice of whether to keep and use the money for other things or to save it with the bank or trade with it or lend it to some other individual etc. If the real rates of interest on deposits are negative, the interest rate sensitive savers will not save. They will prefer to be financially excluded. In the same vein, if the lending rates are very high it may also discourage many would-be candidates particularly from the informal sector. Table 3 below presents the real rates on three months deposits as well as the nominal lending rates since 1990

Table 5: Interest Rates on Lending and Deposits

Year	3 Month's Deposits (%)	First Class Advances (%)	Inflation Rate (%)	Real Rates on Deposits (%)
1990	19.8	25.3	7.4	12.4
1991	14.9	20.0	13.0	1.9
1992	18.0	24.8	44.6	-26.5
1993	23.2	31.7	57.2	-33.9
1994	13.1	20.5	57.0	-43.9
1995	13.5	20.2	72.8	-59.3
1996	13.1	19.8	29.3	-16.2
1997	7.2	17.8	8.2	-1.0
1998	10.1	18.2	10.3	-0.2
1999	12.8	20.3	4.8	8.0
2000	11.7	21.3	8.8	2.9
2001	15.3	23.4	18.8	-3.5
2002	16.7	24.8	13.0	3.7
2003	14.2	20.7	14.0	0.2
2004	13.7	19.2	19.4	-5.7
2005	10.5	17.9	13.5	-3.0

Source: IMF Statistics

It is evident that the interest rate on deposit since 2000 has been abysmally poor. Inflation depleted the financial rewards for 2001, 2004 and 2005. Savings rate will obviously be worse since the interest on savings is oftentimes lower than the deposit rates. The disincentive of negative real rates as was the case between 1992 and 1998 as well as 2004-2005 will obviously make potential savers deploy their monies in non-bank alternatives.

Threats to the Success of the Universal Basic Education Programme

The official statistical publication of the Central bank of Nigeria reveals that the country's literacy rate has remained constant at and has not exceeded 57% for close to a decade, between 1996 and 2003 in spite of the increasing number of schools across all levels. In its 2004 (Published Feb 28, 2005) and 2005 (Published March 2006) Country Reports on Human Rights, the literacy rate was put at 58% for men and 41% for women. This averages 50% for both sexes.

The implication of this statistics is that the reforms in the educational system have not moved at a faster rate than the population growth rate which means that the levels of exclusion in the past decade have persisted. The reason for this is not far fetched. The poor implementation of the UBE programme has not lead to any meaningful increase in the level of literacy in the country. In a newspaper news report filed by Jacob Segun Olatunji and published in Sunday Tribune newspaper of 30th July 2006 titled "Why the UBE failed...Contracts Given as Gifts" it was made clear that the UBE programme started in 2001 made no impact and needed to be relaunched in 2006. According to the news publication "More facts are emerging on the reasons behind the failure of the Universal Basic Education, (UBE), Programme, put in place by the present administration, despite the several billions already sunk into the project...However, emerging facts revealed that despite the commitment of huge amounts of money into the project, it had been discovered that the entire money might have gone into private pockets of individuals through various means. Findings revealed that majority of the contract papers were given out as gifts (welfare) to individuals who later sold such contract papers at give-away prices without executing such contracts. According to findings, while the contracts were actually said to have been awarded by the Federal Ministry of Education, most of the sites indicated in the contract papers were either not in existence or the projects not executed where they existed at all".

There are many other reasons. One other threat to the programme is the inconsistency over who should pay primary school teachers salary. In the past, the impasse arising from this has led to unpaid salaries sometimes for upwards of six months, forcing many well-trained and qualified teachers to move to other lucrative economic sectors, or to private schools where salaries are regular.

These failures collectively lead to some financial exclusion of the citizens.

Economic Reforms versus Increasing Poverty

One can agree that structures for poverty reduction are being put in place by the government through the reform programmes and with the assistance of many donor agencies. But it is contentious to say that accept that poverty has been reduced. Based on IMF statistics on Nigeria, the daily GDP per capita (not adjusted for inflation and the uneven distribution wealth) for 2003, 2004 and 2005 are N159.00, N185.00, and N263.00 respectively. If the GDP is adjusted for inflation for the three years these figures will be N1.04, N1.01 and N1.27 respectively. Your guess is as good as mine if we adjust for the typical highly skewed wealth distribution which approximates that more than 60% of the country's resources are in the hands of less than 10% of the population. The conclusion is that poverty level has not decreased appreciably because of some of the impacts of government policies which push up the levels of inflation or the ones leading to mass retrenchments etc. The result is that we are still where we are.

Thus all government's economic policies such as privatisation, concessioning, liquidation, rightsizing, downsizing or retrenchment and other reforms programmes have explicitly taken away the means of livelihood of affected persons and hence excluded them financially.

Wage Package and the dependency problem

The uncompetitive wage package in the public sector also financially excludes majority of the very low cadre. Although many of these personnel are paid through the banks, most of these people never go back to the bank until they are paid again. This is because their pay package can barely sustain them and it therefore makes little or no sense keeping any money in the bank.

Bank Consolidation and Credit Requirements

One of the after effects of bank consolidation is the change of interest of most banks from small transactions to mega transactions with very little space given to small transactions. This is worsened by the credit requirements from banks. Typically, most banks require collateral securities even for small loans of less than N10,000.00. The requirement of collateral for small amounts of loan typically from informal sector entrepreneurs is a sure way of turning down their requests and explicit exclusion from the benefits of the bank as a financial institution.

Conclusion

Investment growth can be partially tied to the extent of success achieved in either the maximization of financial inclusion or the minimization of the exclusion rates. As already noted, improvements in, and consequently investment inclusion can take the forms of improvement in the mass literacy levels, macroeconomic stability, and the performance of the financial sector particularly those closest to the ordinary people. The suggested roles of banks and additional responsibilities of government in this process are presented below.

Role of the Banks

On improving on the savings rate, the banks can have discriminatory interest rates which pays higher (in line with the inflation rate or up to the minimum rediscount rate - which is not the case currently) to savers of lower amounts particularly the traders, artisans etc and workers of certain grade levels. This will increase the incentives to use the banks and will also benefit the bank in terms of increased savings deposit which will still be low enough relative to the lending rates. The various promo by many banks aimed at increasing savings such as the raffle draw that pays N1 million to at least one saver a month for the duration of the promo is good but it focuses only on the side of the bank and may not encourage further inclusion as soon as the promo stops. However, the price can be slightly increased and distributed as additional interest across savers of that category. We expect that this latter option can stimulate further interest in banking.

On the UBE, through an institution of keenly contested scholarships that holds a long term focus of up to university level for (a) children from certified poor homes (b) who successfully attend and complete the UBE sponsored primary education with a certain grade of pass (c) who entered secondary school and make a certain grade etc. The structure can vary but the underlying facts here are a long term focus which begins to change the aspirations, orientation and thinking of those who are/want to enter join the UBE funded programme. Awards for parents/communities/local governments with highest enrollment in each year can be some of the ways of getting the authorities closest to these people to encourage them to become literate.

Of course other levels of assistance in building of school blocks for communities, sponsoring of teachers in colleges of education etc will inevitably help.

On the reform programme and poverty, banks can have microfinance banks/divisions autonomously run wherever it has a branch. To come around the problem of collateral security for loans, banks can assist in the formation and funding of cooperatives, who will in turn have responsibility for checking the members possible credit default.

Role of Government

On the side of government, promotion of reforms that improve banking at the levels of the ordinary people is foremost. Strengthening community banking projects, encouraging and promoting cooperatives and thrift activities will undoubtedly stimulate further inclusion of ordinary people. Activities that promote small and medium scale activities beyond the lips is equally important. However, it appears that the most important factors of all relevant steps by government are the appropriate funding of mass literacy projects as well as the aggressive pursuit of macroeconomic stability. In the case of the former, sincerity of purpose is key and in the latter, fiscal prudence and floor-level corruption will achieve the expected results over a medium term period. Encouragement of the financial services sector to lend for investment is also important.

A modification of the national education model to support enterprise and vocation is also important. This will help in churning out graduates that can be quickly/gainfully employed and become economically independent within a short period of time rather than graduates who will hang-on in a queue for long periods waiting for while-collar jobs. The advantage here is the faster exposure to the need for savings and investment which expedites the rate of decline in the exclusion rate.

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