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What financial inclusion in Nigeria should include

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Abstract

The high percentage of Nigerians who are financially excluded coupled with the enormous advantages of a financially inclusive economy provides justification for the dogged pursuit of financial inclusion policy by the Central Bank of Nigeria (CBN) and other stakeholders. Also, financial literacy has been identified as a key pillar of financial inclusion and that financial inclusion will be impossible without a robust financial literacy programme. Hence, the CBN has sponsored the development of both the National Financial Inclusion Strategy and the Financial Literacy framework for Nigeria. However, the financial literacy framework designed by the CBN seemed to be tended toward benefiting the financial institutions and the government more than the individuals to whom it is targeted. This is so because some fundamental aspects of personal finance and money management skills, such as personal cash-flow management and the process of financial freedoms among others are excluded from the framework. This paper is therefore fixated on explaining these concepts and showing how integrating them in the financial literacy blue print of Nigeria will not only expedites the implementation of the financial inclusion agenda, but will also reduce poverty and ultimately contributes significantly towards the achievement of sustainable and inclusive economic growth and development in Nigeria.

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1. Introduction

The increase energy in the pursuance of financial inclusion worldwide is well justified in literature. Among the reasons for this global crusade is the large proportion of the world population (about 2.5 billion) that are financially excluded, coupled with a number of empirical evidences showing that financial inclusion is critical to the achievement of inclusive growth and is a prerequisite for sustainable economic growth and development. Financial inclusion entails the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players (Charkrabarty, 2013). The focus of financial inclusion is to ensure that a greater percentage of adult population if not all, take active part in economic activities through the financial sector. According to the United Nations Secretary General Special Advocate on Inclusive Finance for Development (2013), a country's financial sector can contribute to equitable and faster economic growth and social development when it engages the whole population and effectively serves enterprise activity. How then can the whole population be engaged in the financial sector when a significant proportion is financially illiterates? That is why financial literacy is recognized as a prerequisite and fundamental driver of financial inclusion.

Financial literacy involves being knowledgeable on issues of managing money, understanding basic concepts about analysing money and assets, and using this knowledge to plan, evaluate and execute financial decision. A financially educated individual should be able to manage their finances by doing things like paying bills on time, having good credit, having means of saving and investing and spending their money wisely (Long, 2011). In Nigeria, the Central Bank of Nigeria (CBN) in conjunction with other stakeholders have developed a National Financial Inclusion Strategy aimed at reducing the number of Nigerians that have no access to financial services from 46.3% to 20% by the year 2020 in line with Maya declaration (Central Bank of Nigeria (CBN), 2012). To this end, a high implementation priority is place on the design of financial Literacy framework. While this is most welcome and commendable, some fundamental ingredients of personal financial and money management skills, such as personal cash flow management and the process of financial freedom among others are left out of the financial literacy framework. In our estimation, these missing elements have the potential to motivate individuals and household to participate in the national literacy programme and to facilitate the achievement of government agenda of inclusion and growth.

This paper is therefore aimed at explaining the process of financial freedom and showing how their inclusion in the financial literacy package will hasten the achievement of financial inclusion goal in Nigeria. The rest of the paper is organized into four sections; section 2.0 highlights the rationale for financial inclusion as well as the Nigeria strategy for achieving financial inclusion. Section 3.0 discuses financial literacy around the world and highlights the framework for Nigeria. Section 4.0 and 5.0 respectively focuses on the process of financial freedom and conclusion of the paper.

2. The rationale for financial inclusion and the Nigerian strategy

Financial inclusion has become one of the central focuses in both national and international policy sphere and in discussions on sustainable growth and development world-wide (Mbutor & Uba, 2013). The high energy in this pursuit is justified by the good promises of financial inclusion as well as its potency showcased by empirical evidences around the world. The potential benefits derivable from financial inclusive policy include the fact that greater access to basic financial services would lead to increase economic activities and employment opportunities for rural households. It also ensures greater involvement by different segments of the society in the formal financial sector, thus increasing the effectiveness of monetary policy; increase in the financial sector savings portfolio, enhance the efficiency of financial intermediation and allows for tapping of new/innovative business opportunities. In sum, financial inclusion is a necessary condition for sustainable and equitable growth (Mbutor & Uba, 2013)

The definition of financial inclusion may be taken for granted, as they are a consensus in that respect. However, for the purpose of emphases, we will consider few views. Charkrabarty (2013) define financial inclusion as the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players. In the same vein, the Central Bank of Nigeria (CBN), (2012) asserted that financial inclusion is achieved when adults have easy access to a broad range of financial products designed according to their needs and provided at affordable costs. From the above definitions, it is clare that financial inclusion strategies aim at increasing the number of people with accounts in banks and other formal financial institutions. Also, financial inclusion is targeted at the vulnerable and low income segment of the society, and the operational components are awareness, availability, accessibility and affordability of financial products and services by these target groups. The range of financial products and services include, savings account, current accounts, credit accounts, insurance, pension, as well as the use of formal payment media such as cheques, ATM cards, internets payments, mobile payment among others (CBN, 2012a; Mbutor & Uba, 2013)

Incidentally, the status of Nigeria with respect to financial inclusion is still low. Table one (1) reveals that only 36% of adults in Nigeria (about 31million out 85 million adults population) have access to formal financial services, as compared to South Africa and Kenya where 59% and 52% respectively have access to formal financial services (CBN, 2012a)

Table 1. Comparing Financial Inclusion in selected Countries as at 2010

Products	S/ Africa	Kenya	Nigeria	Uganda	Ghana	Tanzania	Rwanda	Zambia
Transaction services	59%	52%	36%	34%	28%	13%	12%	8%
Savings	20%	36%	26%	17%	25%	7%	26%	10%
Credit Product	32%	2%	2%	5%	4%	16%	3%	2%
Insurance	36%	7%	1%	22%	4%	6%	1%	4%
Pension	37%		5%					

Source: Adapted from CBN (2012)

In 2010, the Enhancing Financial Innovation and Access conducted a survey on Access to Financial Services in Nigeria and identified five major barriers to Financial Inclusion: income, physical access, financial literacy, affordability and eligibility. In Table 2, the percentage of unbanked adults associated with these hurdles show that 82% of adults do not have accounts because of income, 40% because of physical access, and 22% because of illiteracy, 10% due to affordability and 6% due to eligibility.

Table 2. Reasons for not have Account (% Unbanked)

Income		Physical Access		Financial Literacy/consumer protection		Affordability	Eligibility
Irregular income	No Job	Too Far	Transport costs	Illiterate	Lack of trust	Expensive to have	Documentation
48%	34%	27%	13%	14%	8%	10%	6%

Source: CBN (2012)

Although, financial illiteracy is placed third by this survey result after income and physical access, financial education, in our estimation, is the most important obstacle to financial inclusion. This is because income does not determine wealth; it is financial knowledge that does. Stating it more plainly, it is financial intelligence that makes rich and not money (Adelaja, 2012).

Table 3. Financial Inclusion Targets for Nigeria

Unit of Measurement	Product	2010	2015	2020
% of total Adult Population	Payments	36%	53%	70%
	Savings	24%	42%	60%
	Credit	2%	26%	40%
	Insurance	1%	21%	40%
	Pensions	5%	23%	40%
Units per 100,000 adults	Branches	6.8	7.5	7.6
	MFB branches	2.9	4.5	5.0
	ATMs	11.8	42.8	59.6
	POS	13.2	247.7	381.7
	Mobile Agents	0	3159%	62
% of pop.	KYC ID	18%		100%

Source: adapted from CBN (2012)

Furthermore, the more intelligent people are financially, the greater their appreciation of the financial product and services which is the real objective of financial inclusion. The financial inclusion target for 2015 and 2020 as depicted in figure 3 can be cheaply achieved with this bottom-top approach.

3. Financial literacy and the nigerian framework

The recognition that financial literacy, in complementarity with financial inclusion and consumer protection is a fundamental pillar in the pursuit of inclusive growth and financial stability is the principal motivation for the increase interest and attention in financial literacy globally. According to the CBN (2012b), inclusive growth in an economy can only be achieved where a large proportion of the population participates in the financial markets. Besides, the growth in the financial literacy campaign is also fuelled by the sophistication of financial products and services as well as the increase burden on individuals to manage their personal finances and globalisation. In the U.S.A for instance, it is reported that since the year 2000, financial literacy has become a buzzword in the news, and several efforts from the government, non-profits, and other organisation have worked toward increasing financial literacy (Long, 2011). It was averred that asides the complex financial mechanism requiring individuals to make more prudent choices in financial products and services, employers are now shifting the responsibility for retirement planning and savings to their employee (Long, 2011).

Financial education refer to the process by which individuals improve their understanding of financial products and concepts; and through information, instruction and/or objective advice develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being and protection (OECD 2005 cited in Trust Fund, 2013). It involves a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.' (Atkinson and Messy, 2012 cited in Trust Fund, 2013). It should be emphasise here that individual's financial wellbeign is the ultimate motivation for financial education.

In Nigeria, the large number of adults who are financial excluded is an addditional impetus for the pursuance of financial literacy policy. Among the reasons for this disturbing statistics are the lack of financial literacy in the curriculum of all level of our educational systems, lack of knowledge of the service providers and service provided as well as the stringent conditionality's for accessing the services where they are available (CBN, 2012b)

Consequently, the Central Bank of Nigeria (CBN) had designed a detailed framework for the implementation of financial literacy programme. The main objective of the financial literacy framework in Nigeria is "to assist the attainment of financial inclusion and financial stability through the empowerment of citizens with knowledge of various types of financial products and services available, how they work, their benefits and risks, and how to access them in order for individuals and business firms to make informed choices and decision". The specific objectives are to:

i. Increase individual knowledge and skills to make sound financial decisions through better understanding and appreciation of the risk/reward trade-off in investment choices
ii. Increase awareness on the necessity for individuals to have a personal financial plan encapsulated in a budget, adhere to the budget, and prioritize their spending according to their most pressing needs rather than wants;
iii. Help financial excludes individuals to know, understand and access financial products and services at affordable costs;
iv. Help individuals/business understand their rights and obligations when they enter into loan contract and other forms of financial transactions in order to minimize credit risk in the financial system and protect consumers;
vi. Increase ability of individuals and firms to generate and save income, enabling them to take responsibility for their future
vii. Empower individuals by enhancing their financial knowledge and financial planning skills
viii. Sensitize relevant stakeholders on financial education and their expected roles under the framework by creating a platform for stakeholder's engagement and interactions (CBN, 2012b:8)

Again, the strategic focus of the framework is to use financial literacy to drive financial inclusion policy of the government and ultimately promote economic growth. The framework recognises the existence of different categories of the Nigeria population, each of which a suitable model is to be employed.

The main goal and the strategic focus of financial literacy framework emphasises financial inclusion and economic growth as the primary and secondary objectives, and no mention was made of the financial wellbeing of the citizens. Although the specific objective contain some issues in personal finance, such as personal budgeting, the concept of risk and return as well as saving and investment, the core of financial intelligence, which is "Financial Freedom" or 'the process of financial freedom' was not included in the framework. It should be noted that freedom is the most authentic evidence of knowledge or in the words of scripture, knowledge of the truth is what guarantees freedom (New Living Translation, 2004). In the same vein, financial knowledge or financial intelligence should culminate in financial freedom, and it should be visibly integrated in the any government policy on financial literacy. This, in fact, is the strong case of this thesis; hence, the meaning, process and relevance will be dealt with in the immediate next section.

4. The process of financial freedom

Financial Freedom is a financial position of an individual where passive income exceeds his living expenses (Akinyemi, 2012, Emenuwe, 2013). It is a point where an individual monthly passive income is higher than his monthly expenses. Passive income is income earned without the individual's active involment in generating the income. Such income may include: rent from real estate; royalty from intellectual property; directors' bunuses from authomated businesses; dividend/interest from paper investment and bonuses from Network Marketing (Akinyemi, 2012). Interestingly these are the five major sources of passive income in the world. They are the investment vehicles that ensures that, rather than work for money, money can actually work for you. These are investment arena of the rich. Every one who is legitimately wealthy, or any one who is financially free is either a player in one or more or even all of the five vehicles. But it is financial intelligence that guarantee your journey and eventual safe landing in the destination of financial freedom. For this purpose our defition of financil literacry will be modified, hence we will refer to it as financial intelligence. That is, that part of our total intelligence that is used in solving financial problems. It relate to the knowledge about money, the attitudes towards money and the skills in managing money (Kiyosaki, 2008).

This financial state is not an event but more or less a destination. And like every destination, it takes a journey to get there. The journey toward financial feedom reqiured an understanding of the process flow map. This map are the 'key train stops', that helps us to spot where we are and allerts us of the progress we are making towards our financial freedom (FF) destination. Akinyemi (2012) identified nine steps or stages in this process as depicted in the financial Fredom flow map shown in figure 1.

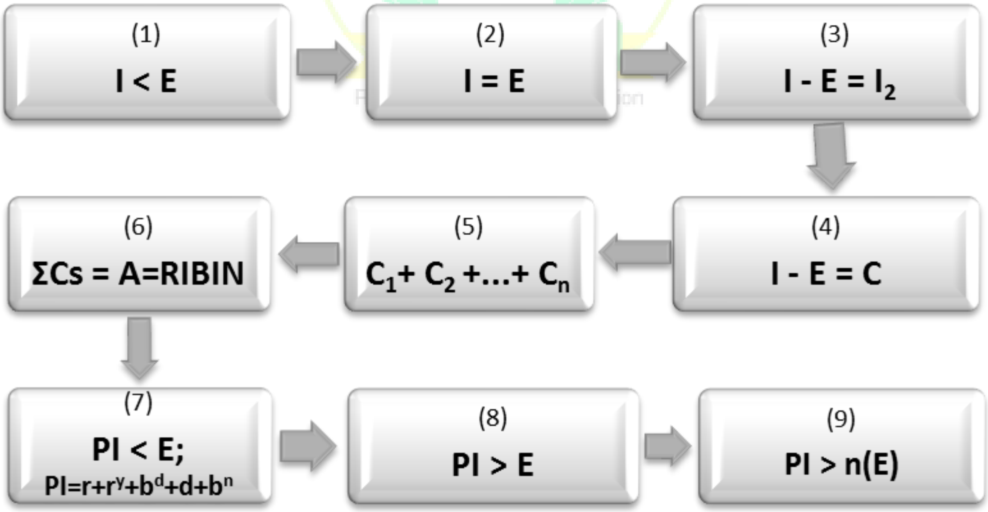

Fig. 1. Financial freedom flow map

Source: Adapted from Akinyemi (2012)

Stage one is where Income (I) is less that the individual expenses (E). It is a stage of no income (dependent individuals) or reckless financial lifestyle. There are a lot of people both in the developed and developing economies that spend more than what they earn. In America for instance, it is reported that about 40% of adults spent more than what they earn (Long, 2011). In Nigeria, the percentage where beter imagined. The second stage is where the individuals' income is just enough to take care of his expenses, but without any savings (I = E). This state of affairs conforms effectively with the Pakinson's Law which posits that expenses often always increase symbiotically with increase in income. Individuals at this stage live from hand to mouth and hope that the future willl take care of itself. It is a state of low financial discipline. Stage 3 is where the individual's income is hgher that his expenses ($I > E$ or $I - E = I_2$). However, the excess of income over expenses is considered another income (I_2). In other words, the difference is saved but it is not safe. The I_2 is spent in an event of the slightest financal presure. The fourth and fifth Stages in the FF process flow map, ($I – E = C$) is were the income is higer than expenses as in stage three, but rather than consider the differnce as income, it is considered a 'cashflow'. A cash flow is the difference between income and expenses. the cash flow is then deposited in an "escrow account". An escrow account is an account in wish the CF are deposited, but withdrawal is only permited when buying an asset (Akinyemi, 2012). When the cashflows are accumulated as in stage five ($C_1 + C_2 +…+ C_n$), it is move to buy assets (stage six)

It should be remembered that an 'assets' under financial intelligence phraseology is any economic resource of value that pays you on regular basis or any economic resource of value that has the capacity to generate passive income. (Kiyosaki, 2008; Akinyemi, 2012). It is assume that individuals at this stage have their eyes on financial freedom as their ultimate goal or destination. Here, the individual utilises the accumulated cash flows to buy assets. The United Way (2006) in their financial education survey report, opined that assets buliding is one way to move low income individuals and families into the economic mainstream. The assets so aquired begin to yield passive income (stage 7), and once the passive income exceeds expenses ($PI > E$) (stage 8 and 9) the individual is financially free. This is the ultimate goal of any financial literacy adventure or else it is a life long joke. Until an individual is financially free, he cannot do what he really want to do, he will continue to do what he have to do all his life.

The point to be emphasised here is that, an understanding of the process of financial freedom provide the motivation for people to learn about money and how money works as the lack of this understanding is the main reason for poverty anywhere (Adelaja, 2012). This understanding also provokes financial planning among individuals, enforces positive attitudes towards saving and investment as well as retirement through pension schemes, which are the ingredients of financial inclusion goals. This suggests that pursuing financial inclusion through a down-top approach will be more effective than the top-down approach.

5. Conclusion

The issue of financial inclusion and financial literacy are top issues in both national and global policy spheres, especially for ensuring financial stability as well as in the pursuance of sustainable, inclusive and equitable economic growth and development. It has also been recognised that financial literacy or financial intelligence is sine quo non to the achievement of financial inclusion. Nigeria has also joined many other nations in the development and implementation of financial inclusion strategy as well as the financial literacy policy. However, while the financial literacy framework is very rich in content, we consider that an important ingredient (Financial Freedom) is missing and needed to be included to be holistic.

Financially intelligent individuals control their expenses, save and invest, they are capable of making healthy financial plans; plan for retirement, children's education and build their assets column that generate passive income and guarantee financial freedom. This financial behaviors influenced by financial knowledge can be relevant to the individual financial wellbeing and bring about great benefits to the nation and the world

(Bank of Albania, 2011). On the contrary, a lack of financial education leads to poor financial planning, low standard of living, decreased psychological and physical well-being and greater reliance on government support. In the opinion of Lusardi & Mitchell, (2011) people fail to plan because, they are financially unsophisticated. Planning requires making calculations, many of which are facilitated by financial literacy.

Financial freedom is the ultimate goal and motivation of financial intelligence. To this extent, this paper recommends that, personal Cashflow management and the process of financial freedom should be explicitly engrained into the financial literacy framework. This will go a long way to reduce poverty, expedite the achievement of financial inclusion goal of government and facilitate financial stability and contributes to inclusive economic growth and development.

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