Journal of Business and Economics, ISSN 2155-7950, USA
March 2016, Volume 7, No. 3, pp. 525-532
DOI: 10.15341/jbe(2155-7950)/03.07.2016/016

http://www.academicstar.us

Implications of Money Market Deepening for Financial Inclusion in Nigeria

Matthew Jesse Kromtit, Rose Ifeoma Umejiaku
(Department of Economics, University Jos, Nigeria)

Abstract: Financial systems all over the world play fundamental roles in the growth and development of the economy, particularly through enhancing the financial intermediation between the deficit and surplus units in the economy. The Nigerian money market and its institutions as a segment of the financial system have received the attention of the government and its agencies over the years since 2004 to improve the access to finance by investors in the country. This forms the motivation for the study which aims at unveiling the implications of the deepening of the Nigerian money market for financial inclusion in the country in recent times. By using qualitative and descriptive methods of analyses, the study reveals that the Nigerian money market has not yet deepened enough to meet the financial inclusion target in the country; low and irregular income; inadequate physical access to deposit money banks especially in rural areas; financial illiteracy, ineligibility and affordability; lack of knowledge and awareness of modern technology and poor interest rates management are serious impediments to financial inclusion in Nigeria. The study recommends among others a complete overhaul of the financial infrastructure, especially in the rural areas to attract the informal servers of financial services into the formal financial sector; the regulation of policies on financial inclusion that focus on the distribution channels of financial services and retail agent banking are necessary to increase access to finance; a massive enlightenment campaign on financial products and payment techniques is vital to increase patronage and the need to properly monitor the interest rates of banks is important to ensure that they do not unnecessarily charge high rates that are inimical to borrowing by investors as the investment climate dictates. The policy makers should therefore work towards providing an environment where all stakeholders can perform the functions they do best and they should work with clarity and consistency and speed up the process of moving towards greater openness and greater certainty in the electronic payment/identification sphere.

Key words: money market deepening; financial inclusion; Nigeria
JEL codes: E43, E51, E52, E58, G2, O4

1. Introduction

Financial systems all over the world play fundamental roles in the growth and development of the economy. The Nigerian money market as a segment of the financial system therefore, is vital in enhancing particularly the

---

Matthew Jesse Kromtit, Department of Economics, University of Jos; research areas/interests: monetary and financial economics. E-mail: kromtitm1@gmail.com.
Rose Ifeoma Umejiaku, Dr., Department of Economics, University of Jos; research areas/interests: monetary and financial economics. E-mail: roseumejiaku@yahoo.com.

financial intermediation between the deficit and surplus units in the economy. However, the extent to which the money market performs its roles in the economy largely depends on its level of development. It is to ensure its soundness that the financial sector particularly the money market appears to be the most regulated and controlled by the government and its agencies (Ofanson, Aigbokhaevbolo & Enabulu, 2010). Precisely, the money market in Nigeria has changed drastically over the past few years with the recapitalization of money market institutions which started in 2004.

Consequently, while the Nigerian money market institutions enjoyed robust financial growth in recent years that strengthen their balance sheets, statistics on the level of financial inclusion in the country are not quite impressive. For instance, the Central Bank of Nigeria (CBN) (2008) declared that of the 148 million people in Nigeria 70% are unbanked. In addition, Enhancing Financial Innovation and Access (EFInA), an independent financial sector development organization, in a survey in 2010 reported that 56.3 million adults representing 64.1% of the adult population do not have bank accounts in the country even though, the Nigerian financial system is largely bank-based and 46.3% of adults are estimated to be financially excluded from accessing general financial services in the country. This means that the amount of cash spent by majority of Nigerians do not pass through the formal financial sector. This is why the vision: 2020:20 financial inclusion target of the Federal government of Nigeria seeks to reduce the rate of those excluded from financial services to 20% by the year 2020.

From the foregoing, this paper aims at assessing the deepening of the money market and unveiling its implications on driving the National Financial Inclusion Agenda of the Federal Government of Nigeria. It is the position of this study that the deepening of the money market in Nigeria could help promote financial inclusion and consequently facilitate monetary policy implementation.

The study is structured into five sections. Section one is the introduction which summarizes the background to the study, the research problem and objectives. Section two gives the conceptual clarifications by reviewing relevant literature and discussing the theoretical framework of the study. While section three discusses the methodology which is purely qualitative and descriptive in nature; section four assesses money market deepening and unravels its financial inclusion implications in Nigeria and section five concludes with recommendations.

2. Review of Relevant Literature

2.1 Conceptual Framework

Financial deepening and financial inclusion could be mistaken to mean the same thing when the two concepts are not closely examined. While it is possible for an economy’s financial sector to deepen without enhancing financial inclusion, it is next to impossible to enhance financial inclusion without financial deepening. Therefore, in this section we consider the concepts of financial deepening, financial inclusion, theoretical perspectives as well as empirical evidences on this subject matter.

2.1.1 Concepts of Financial Deepening and Money Market Deepening

The concept of financial deepening is used in the economic literature to mean an increase in the stock of financial assets relative to Gross Domestic Product (GDP) (Falegan, 1987). It was introduced by Shaw (1973) and Mackinnon (1973) as a measurement of efficient allocation of capital by shifting more of the available resources to better investment opportunities. Ndebbio (2004) pointed out that financial deepening connotes growth in the supply of financial assets in an economy. Cheng (1980) defined financial deepening in the context of developing countries’ effort to achieve growth through financial intermediation. In this respect, financial deepening represents an increased amount of financing of production and investment through formal or specialized markets.

For the purpose of this study, therefore, we concentrate on the role of the money market in promoting financial inclusion in Nigeria. Hence, money market deepening as it is used here means efforts to achieve economic growth through increased financial intermediation and other latest developments in the short-term end of the financial system.

2.1.2 Concept of Financial Inclusion

To CBN (2012), financial inclusion is achieved when adults have easy access to broad range of formal financial services that meet their needs and are provided at affordable cost. This definition is based on:

(1) Ease of access to financial products and services. This means financial services must be within easy reach for all groups of people and should avoid onerous requirements.

(2) Usage of a broad range of financial products and services. Financial inclusion implies not only access but usage of a full spectrum of financial services including but not limited to payments, savings, credit, insurance and pension products.

(3) Designed according to need. Financial products must be designed to meet the needs of clients and should consider income levels and access to distribution channels.

(4) Affordable cost. Financial services should be affordable even for low income groups.

Thus, we view financial inclusion as positive financial changes resulting from the deepening of the financial system. These changes are evident in terms of accessibility to and usage of financial services, as well as the extent to which financial services and products meet the needs of the users and the cost at which they obtained them particularly from the money market-banks.

2.2 Theoretical Framework: Mackinnon-Shaw's Financial Repression Hypothesis

The MacKinnon-Shaw's proposition was that a repressed financial sector could interfere with development in several ways: savings vehicles are not well developed, financial intermediaries that collect savings do not allocate them efficiently among competing use and firms are discouraged from investing because of financial policies that reduce the returns on investments or make them uncertain; as a result financial inclusion as well as economic growth and development are seriously retarded. Thus, MacKinnon and Shaw (1973) argued that financial liberalization theory could play critical role in promoting economic growth through financial deepening.

The financial repression hypothesis was also based on the classical assumption that savings determine investment and that a full utilization of resources is always guaranteed. This is contrary to the fundamental Keynesian framework which suggested that it was investment that determined savings and that the supply of loans was endogenous through the money multiplier process by which the banking system could create additional credit without increasing the deposit base.

Notably, the Structuralist Model developed by Taylor (1983) pointed out that the financial liberalization framework ignored the several channels through which high interest rates could adversely affect investment and the level of demand in the economy; where an increase in interest rate would raise financing costs to the firms which may lead to rising prices, a fall in real wages and a reduction in aggregate demand, thereby reducing capital accumulation and consequently posing serious obstacle to financial inclusion.

2.3 Empirical Evidences

In a survey carried out by EFInA Access to Financial Services in Nigeria (2010), five major barriers to financial inclusion in Nigeria were found. These were reasons given by the unbanked for not having bank accounts as shown in the table below.

Table 1 Barriers to Financial Inclusion: Reasons for Not Having Bank Accounts

Barriers	% unbanked
Income	
Irregular	48%
No job	34%
Physical access	
Too far	27%
Transport costs	13%
Financial Literacy/consumer protection	
Illiterate	14%
Lack of trust	8%
Affordability: Expensive to have	10%
Eligibility: Documentation	6%

Source: EFInA, 2010

From Table 1, the three key barriers are accessibility, eligibility and financial literacy. The survey revealed that 23.6% of the adult population earned less than USD 2 per day, 10.9% of adults were unemployed, the average distance to a branch was greater than 10 km, 79% of rural dwellers were unbanked, 14% lacked understanding of financial institutions and products, 8% lacked trust in financial institutions, 10% could not afford the fees for ATMs/transactions and minimum balances requirements and 6% had problem with cumbersome documentation and rigorous identification requirements such as Know Your Customer (KYC) regulation.

Globally financial inclusion is a mainstream topic. Many countries have taken action to increase the access to and use of financial services, The FinScope data on financial inclusion in African countries clearly showed that in sub-Sahara Africa, the percentages of the financially excluded in South Africa, Uganda, Kenya, Botswana and Ghana are 24%, 30%, 33%, 33% and 44% respectively (EFInA, 2010). These statistics are below that of Nigeria which stands at 46%. Thus, this study re-affirms that financial inclusion in Nigeria would be driven only when money market deepening is significant. This is because the money market dominates the Nigerian financial system.

3. Methodology

Qualitative and descriptive methods of analyses were employed to assess the deepening of the Nigerian money market and to show the implications for enhancing financial inclusion in the country. The pieces of information used for this study were from secondary sources: the Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS), Journals, the internet and other documentary sources. Strikingly, reviewing related conceptual and theoretical issues as well as descriptive statistics gives a deeper insight and enables us to draw reasonable implications, conclusion and make sound recommendations.

4. Assessment of Money Market Deepening and Financial Inclusion in Nigeria

This section documents the dimension of money market deepening and financial inclusion in Nigeria. Looking at the money market as well as its institutions, it sheds light on the implications of the deepening of the money market on financial inclusion in Nigeria.

4.1 An Overview of the Nigerian Money Market

The Nigerian financial system is a conglomerate of institutions, markets, instruments and operators that interact to provide such financial services as resource mobilization and allocation, financial intermediation and the facilitation of foreign exchange transactions. It is categorized into money and capital markets (formal institutions) where short term and medium term financial instruments or securities are intermediated and traded respectively; and informal institutions such as local money lenders, thrift and saving societies.

Some of the most striking changes in the financial system have occurred in the money markets. These markets have had to adapt to changes in short term borrowing and lending patterns by different economic sectors and to the introduction of new market instruments. The instruments of the Nigerian money market include treasury bills (most pronounced), treasury certificates, money at call, commercial papers, certificate of deposits, bankers' unit fund, stabilization securities and ways, means and advances with each having its maturity date, thereby determining the volume of credit in circulation in the economy.

4.2 Financial Inclusion in Nigeria: Stakeholders and Prospects

The stakeholders in enhancing Financial Inclusion, as defined by FSS 2020 (CBN, 2012), are: Banks, Other Financial Institutions, Insurance, Regulators, Technology/Telecommunications firms, Public Institutions and Development Partners/experts. The interests of some of major stakeholders in the Financial Inclusion Strategy are as follows:

(1) Deposit Money Banks

Currently, 21 deposit money banks are serving about 20 million clients, based on a network of about 6,000 branches and about 10,000 ATMs (CBN, 2012). A large part of the banking market in Nigeria remains untapped and has the potential to provide a large funding base through savings mobilization. They present a large market for credit, payment, insurance and pension services, commercial banks and hence profit for the banks.

(2) Microfinance Banks

As of July 2011, Nigeria had 866 microfinance banks (MFBs). The MFB network served 3.8% (or 3.2 million clients) of the adult population. Of the 3.2 million clients, 65% used savings products, 14% used credit products and 4% used ATM cards (CBN, 2012). The vast majority of MFBs can increase their scale and operating capacity by exploiting the opportunities provided by the Financial Inclusion Strategy.

(3) Development Finance Institutions

There are five Development Finance Institutions (DFIs) in Nigeria established to channel financial resources to the critical sectors of the economy, which otherwise would not be funded by the conventional banking sector. Focusing on this strategy can help them harmonize multiple interventions and thereby increase impact on the economy.

(4) Microfinance Institutions

Non-bank microfinance institutions (MFIs), which include financial NGOs, financial cooperatives, self-help groups, trade associations and credit unions are not regulated by the Central Bank of Nigeria. Over 600 MFIs are being monitored by CBN (CBN, 2012). MFIs may benefit from the Financial Inclusion Strategy through increased technical assistance and funding to enhance their outreach to members in a more effective and efficient manner.

(5) Insurance

The recapitalization exercise of 2007 led to an increasingly consolidated industry with 49 insurance companies. However, as of December 2010, the insurance sector as a whole served only 1% of the population. With 99% of the population un-served, an enormous business potential remains to be tapped by the insurance companies (CBN, 2012).

(6) Pensions

The 2004 Pension Reform Act established the Compulsory Pensions Scheme (CPS), which has been largely adopted by the Federal Government and private sector. Annual pension contributions grew from NGN 60 billion in 2006 to NGN 290 billion in 2010 (CBN, 2012). However, only 17 of the 36 State Governments and the Federal Capital Territory have passed bills to adopt and implemented the CPS. The current pension system makes allowances for voluntary contributions into which both the formal and informal sectors in Nigeria can tap. Pension fund administrators and custodians can increase their outreach to this untapped segment through appropriate products.

(7) Technology and Telecommunications Firms

There are 9 mobile network operators (MNOs) in Nigeria. Out of these MTN, Globacom and Airtel with a combined market share of approximately 85% are the leaders in this subsector (CBN, 2012). The payments processing segment is operated by four companies, namely Interswitch, Valuecard, Cams and eTranzact. Between 2006 and 2010, the sector witnessed 38% CAGR in the total number of subscribers and 27% CAGR in tele-density (CBN, 2012). Mobile network operators could benefit from the financial inclusion through increased fee revenues from offering of payments services. In addition, client acquisition and retention will be increased through a more attractive product offering.

(8) Public Institutions

Participation in the financial inclusion would help public institutions to achieve their mandate. These institutions include Small and Medium Enterprise Development Agency in Nigeria (SMEDAN), National Identity Management Commission, (NIMC) and Nigeria Postal Services (NIPOST).

(9) Development Partners

Various development partners support Financial Inclusion initiatives and this Strategy would provide a blue print for their interventions and assist them to achieve their objectives.

With regards to the provision of financial services, Nigeria lags behind some of its peer African countries. In 2010 for instance, only 36% — roughly 31 million out of an adult population of 84.7 million — were served by formal financial services, compared to 68% in South Africa and 41% in Kenya. Between 2008 and 2010, the percentage of “completely excluded” fell from 53% to 46%, while those served by the “informal sector” fell from 24% to 17%. At the same time, “formal other” doubled from 3% to 6% and “formally banked” rose from 21% to 30% (CBN, 2012). The CBN further reported that financial inclusion is most progressed in the urban areas of Nigeria, especially in the southern parts of the country. Northern Nigeria is particularly disadvantaged as 68% of adults in the North-East and North West zones, respectively, are excluded. Rates of formal inclusion range from 49% in the South West Region to only 19% in the North-West Region. “Informally included” are more in the North Central region, where 23% of the adults have access to only informal services. The vast majority (80.4%) of those who are fully excluded from formal and informal financial services live in rural areas. Three potential explanations are possible: Firstly, the physical distance to bank branches in most rural areas is long and this poses high cost for accessing financial services. Secondly, the lower economic activity in rural areas limits the profitability of financial institutions. Thirdly, a commonly lower degree of education and financial literacy in rural areas decreases the probability for clients to makes use of financial products and services.

The characteristics of the financially excluded in Nigeria clearly show that out of total of 32 million adults, (that is 46.3% of the adult population) that are currently financially excluded, women account for 54.4%, while youths (those less than 45 years) account for 73.8%. The uneducated, (those without formal education) are about 34.0%, while 80.4% of the rural residents are financially excluded (CBN, 2012).

Thus, two key demographic trends that have implications for financial inclusion are:

(1) Relatively young population that is rapidly urbanizing;

(2) Fertility in Nigeria remains high and unchanged over almost two decades — 5.9 births per woman in 1991 and 5.7 births in 2008. On the average, rural women have two children more than urban women (6.3 versus 4.7 children). Nigeria is the world's tenth most populous country. According to the National Population Commission, Nigeria's population grew from 140.4 million in 2006 to 167.9 million as at the end of October 2011. Out of this, 82.1 million were females and 85.8 million were males. Using a population growth rate of 3.2%, which is the same rate that the Commission used in 1991 and 2006, respectively, Nigeria's population is expected to reach 221.4 million by 2020. The average population density is 150 per sq km, and the population is distributed unevenly. Densely populated States include Lagos, Anambra and Akwa Ibom. The urbanization rate is estimated at 49% in 2009, and is expected to rise to 75% by 2050 (EFInA, 2010). By this time, Nigeria is expected to be among the twenty most urbanized countries in the world. This implies that the existing banking infrastructure has to be developed to enable it have the capacity to serve as a basis for expanding Financial Inclusion in the country.

4.3 Why Emphasis on the Money Market? Implications for Financial Inclusion

Of the 54% banked population in Nigeria 30% are served by deposit money banks, 7% are served by formal institutions other than deposit money banks, and 17% are served by informal providers (EFInA, 2010). Thus, the trend in the indices of the outreach and use of financial services (Table 2) implies that the money market in Nigeria has a great potential of impacting on financial inclusion. While commercial banks' branches and ATMs have increased over the past few years, the number of borrowers from these banks increased but slightly as shown in Table 2. This also reflects in the increasing outstanding deposits with the banks indicating limited access to funds by the investing public. The interest rates statistics in Table 3 is vital in revealing the trend of money market deepening in recent times as these tend to affect deposits and borrowed funds from banks. On the whole, the value of money market instruments increased steadily from ₦m1.081 in 2004.

Table 2 Outreach and Use of Financial Services in Nigeria

Description	2004	2005	2006	2007	2008	2009	2010	2011
Commercial banks branches per 100 km^2	3.93	3.59	3.33	4.70	5.80	6.15	6.39	6.40
Commercial banks branches per 100,000 adults	4.59	4.09	3.70	5.09	6.13	6.34	6.43	6.44
ATMs per 100,000 adults	-	0.67	1.74	4.32	8.45	11.21	10.99	11.99
ATMs per 100,000 km^2	-	0.58	1.57	4.04	7.99	10.88	10.93	11.93
Depositors with banks per 1,000 adults	-	-	-	289.38	304.85	454.39	462.79	506.7
Borrowers from commercial banks per 1000 adults	-	-	-	-	25.75	28.80	29.99	27.56
Outstanding deposits with commercial banks (%GDP)	15.39	17.28	16.39	25.69	35.45	39.84	35.60	40.51
Outstanding loans from commercial banks (%GDP)	12.53	13.37	13.55	22.07	30.19	35.68	25.32	23.88
Value of money market instruments (₦m)	1.081	1.442	1.903	2.902	3.760	4.676	5.895	5.545

Sources: International Financial Statistics, 2013; CBN, 2011

Table 3 Recent Interest Rates Statistics in Nigeria

Rate (%)	2009	2010	2011	2012
Discount	6.00	6.25	12.00	12.00
Lending	18.00	17.58	16.01	16.51
Deposit	13.29	6.52	5.69	8.93
Treasury bills	3.78	3.84	9.70	12.43

Source: International Financial Statistics, 2013

5. Conclusion and Recommendations

Despite decades of progress in the financial systems and markets in Nigeria, the masses continue to depend on cash for their transactions and remain outside the scope of the formal financial sector. There is a vast and diverse group of people whose financial needs are going unmet–marginal farmers, agricultural labourers, migrants, employees and entrepreneurs in the unorganized sector, and socially excluded groups. Their cash flows of income, savings and consumption are of low levels and often of uncertain, irregular nature, making them unattractive clients for the formal financial sector. Yet, bringing the poor and poorest into the system has large savings in the present transaction costs of dealing with cash and has the potential of boosting economic growth. Thus financial inclusion must be recognized as a goal by all policy makers as the economic growth and development story will remain incomplete without participation by the poorest of the poor. However policy makers in the government and at the CBN should continue to emphasize the role of the banks, even as it is clear that market failure has arisen in meeting the goal of financial inclusion precisely because of a mismatch of the needs of the formal financial sector and the low income consumer. It is time to look for new non-bank based models that can fill in the gaps; a complete overhaul of the financial infrastructure, especially in the rural areas is necessary to attract the informal servers of financial services into the formal financial sector; the regulation of policies on financial inclusion that focus on the distribution channels of financial services and retail agent banking are also necessary to increase access to finance; a massive enlightenment campaign on financial products and payment techniques is vital to increase patronage and the need to properly monitor the interest rates of banks is important to ensure that they do not unnecessarily charge high rates that are inimical to borrowing by investors as the investment climate dictates.

Evolving technology has changed the landscape of the financial world as electronic payments bring with them significant efficiencies. Further, with the fast adoption of electronic payment and spread of the networks, costs of making transactions have been significantly reduced. The policy makers should therefore work towards providing an environment where all stakeholders can perform the functions they do best and they should work with clarity and consistency and speed up the process of moving towards greater openness and greater certainty in the electronic payment/identification sphere.

References:

Central Bank of Nigeria (2008). “White paper on financial inclusion using payment cards”, *E-PAN Advisory Committee on Financial Inclusion in Nigeria*.

Central Bank of Nigeria (2011). *Statistical Bulletin*, 21 December.

Central Bank of Nigeria (2012). *National Financial Inclusion Strategy*, October: Abuja.

Cheng H. (1980). “Financial deepening in Pacific basic countries”, *Federal Reserve Bank of San Francisco Economic Review*, Vol. 21, No. 1, pp. 48-57.

Enhancing Financial Innovation and Access (2010). “EFInA access to financial services in Nigeria Survey”.

Falegan S. B. (1987). *Redesigning Nigeria’s Financial System: A Study of Nigeria at the Financial Crossroad in Applied Financial Intermediation*, Ibadan: Ibadan University Press Ltd.

International Financial Statistics (2013). “International monetary fund e-library”.

Mackinnon R. I. (1973). *Money and Capital in Economic Development*, Washington, D.C: The Brookings Institute.

Ndebbio J. E. (2004). “Financial deepening, economic growth and development: Evidence from selected Sub-Sahara African countries”, *AERC Research Paper 142 African Research Consortium*, Nairobi.

Ofanson E. J., Aigbokhaevbolo O. M. and Enabulu G. O. (2010). “The financial system in Nigeria: An overview of banking sector reforms”, *Journal of Management Sciences*, Vol. 1, No. 1, pp. 1-17.

Shaw E. S. (1973). *Financial Deepening in Economic Development*, New York: Oxford University Press.

Taylor L. (1983). *Structuralist Macroeconomics: Applicable Models for the Third World*, Basic Books.