

➤ SUPPLY SIDE: ASSESSING THE IMPACT OF FINANCIAL INCLUSION POLICIES ON DEEPENING FINANCIAL INCLUSION IN NIGERIA

FINAL REPORT

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Enhancing Financial Innovation & Access (EFInA)

EFInA is a financial sector development organisation focused on promoting financial inclusion in Nigeria. EFInA is funded by UK's Department for International Development and the Bill & Melinda Gates Foundation, and has a vision to be a leader in facilitating an all-inclusive and growth-promoting financial system. EFInA aims to promote financial access through market development by catalysing the provision of appropriate services at an affordable price to those who are currently excluded. With a holistic approach to deepening access to financial services, EFInA seeks to impact the market at three levels: micro meso, and macro. EFInA's activities are designed to form a mutually reinforcing "virtuous circle", where one activity feeds into another to change the way that the market operates. EFInA's holistic approach to expanding access to financial services for all, especially for low-income households, is based on the pillars of research, innovation, advocacy, and capacity building.

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Dalberg's global network includes four offices in Africa and others located in cities around the world: Abu Dhabi, Copenhagen, Dakar, Delhi, Geneva, Johannesburg, Lagos, London, Mumbai, Nairobi, New York, San Francisco, Singapore, and Washington, D.C. We have worked in 45 countries across Africa; in Nigeria, Dalberg has worked closely with international and local private sector actors, federal and state governments, multilateral agencies, and non-government organisations in a range of sectors including financial services, education, agriculture/FMCG, and health.

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List of acronyms

ACE	Advisory Committee of Experts
AML/CFT	Anti-Money Laundering & Combating the Financing of Terrorism
ANA	Agent Network Aggregator
ATM	Automatic Teller Machine
BoP	Base of the Pyramid
CBN	Central Bank of Nigeria
CCT	Conditional Cash Transfer
CPC	Consumer Protection Council
CSO	Civil Society Organisation
CSR	Corporate Social Responsibility
CIBN	Chartered Institute of Bankers of Nigeria
COT	Commission on Turnover
DMB	Deposit Money Banks
DFI	Development Finance Institutions
EFinA	Enhancing Financial Innovation & Access
FCT	Federal Capital Territory
FI	Financial Institution or Financial Inclusion
FMARD	Federal Ministry of Agriculture and Rural Development
FMCG	Fast moving consumer good
GDP	Gross Domestic Product
GSM	Global System for Mobile Communications
KYC	Know Your Customer
LGA	Local Government Areas
MD	Managing Director
MDGs	Millennium Development Goals
MFI	Microfinance Institutions
MSME	Micro, Small, and Medium sized Enterprise
MFB	Microfinance Banks
MMO	Mobile Money Operator
MNO	Mobile Network Operator
NAICOM	National Insurance Commission
NAPEP	National Poverty Eradication Programme
NCC	Nigerian Communications Commission
NDIC	Nigeria Deposit Insurance Corporation
NGN	Nigerian Naira
NGO	Non-Governmental Organisation
NIBSS	Nigeria Inter-Bank Settlement System
NIFI	Non-Interest Financial Institution
NIMC	National Identity Management Commission
NIPOST	Nigerian Postal Services
NIRSAL	Nigerian Incentive-based Risk Sharing System for Agricultural Lending
NPL	Nonperforming loan
OECD	Organisation for Economic Cooperation and Development
PenCom	National Pension Commission
PTSP	Payment Terminal Service Provider
POS	Point of Sale
QoS	Quality of Service
SEC	Securities and Exchange Commission
SME	Small and Medium-sized Enterprise
SMEDAN	Small and Medium Enterprises Development Agency of Nigeria

EXECUTIVE SUMMARY

INTRODUCTION

In July 2014, EFinA (as part of its advocacy work) commissioned Dalberg Global Development Advisors to undertake an impact assessment of key financial inclusion policies on deepening financial inclusion in Nigeria.

CONTEXT AND KEY ISSUES

Financial inclusion (FI) in Nigeria is growing but still lags far behind the principal target set in the National Financial Inclusion Strategy, 2012 of the Central Bank of Nigeria (CBN): decreasing financial exclusion to 20.0% by the year 2020 from 46.3% in 2010.¹ Of the 60.3% of adults who are financially served, a substantial portion have a very limited portfolio of options—while many financial institutions may offer products to capture deposits, few offer credit products.²

The Government of Nigeria, especially the Central Bank of Nigeria has put in place a variety of policies to spur greater financial inclusion. This report presents research into how those policies have been received by various stakeholders, providing a window into the degree to which stakeholders believe the policies have thus far supported financial inclusion and—most importantly—how stakeholders believe the policies can be improved going forward.

In the 2010 report on Nigeria’s financial services landscape, EFinA highlighted several constraints to financial inclusion, some of which are typically the purview of banks, others of which lend themselves more readily to policy interventions. The constraints were broadly characterised as *contextual*, involving issues related to demographics, infrastructure, and policy coordination; *regulatory*, with a focus on policy and regulatory content; *systemic*, focused on the sector and supportive systems; *organisational and product based*; and, finally, *demand* constraints. The nine policies studied here have contributed toward remedying some of the issues highlighted in the 2010 report. It is, however, difficult to remedy some others through policy changes alone. Beyond the issues covered directly in this assessment, stakeholders discussed the broader non-policy related constraints to financial inclusion within the enabling environment, which resonate with the 2010 report findings.

METHODOLOGY

To assess the efficacy of the financial inclusion policies put in place by the CBN since 2009, we combined limited desk research with extensive interviews. We conducted interviews with 53 organisations, including a broad spectrum of stakeholders ranging from those providing financial services (deposit money banks [DMBs], microfinance banks [MFBs], mobile money operators

¹ CBN National Financial Inclusion Strategy, 2012.

² EFinA Access to Financial Services in Nigeria 2012 survey. This figure, defined as “financially served” in the report, includes those adults that are banked, and those accessing other formal financial services, as well as those accessing informal financial services.

[MMOs], card issuance companies) to industry associations to those providing enabling services or platforms (agent network aggregators [ANAs], the Switch, mobile network operators [MNOs]).

Not every policy is equally relevant for every type of stakeholder – some only apply to a subset of the types of stakeholders and for every type of stakeholder, certain policies are more important than others. To best allocate our time and focus on where the expertise and experience of our interviewees is strongest, each interview consisted of questions concerning (1) the strategic role of financial inclusion within the interviewee’s organisation (and evidence that underpins that); (2) the interviewee’s awareness of policies that are relevant for his/her organisation; and (3) the interviewee’s satisfaction with those policies and his/her ideas for improving upon them.

FINDINGS ON THE CONTRIBUTION OF POLICIES TO FINANCIAL INCLUSION (FI)

Despite persistent questions, **FI policies are strongly needed as they allow the Central Bank to regulate an industry that has witnessed significant hurdles over the last few decades and still suffers from public mistrust.**

Obviously, not all interviewees were equally satisfied by each policy. As we will see in detail in the sections where we break down responses by type of stakeholder, differences were partially driven by diverging interests. That said, the **policies explored in this research have created an enabling environment that is more conducive to financial inclusion and many financial institutions have developed new offerings and/or have been able to grow the volumes of their products targeted at the unbanked and under-banked.**

Our research suggests that **most stakeholders perceive the CBN as responsive and collaborative** in policy development, although MFBs feel less heard than DMBs. However, **the large number of FI policies and revisions makes it difficult for stakeholders to stay on top of current policy and fully digest regulatory changes.**

Despite the considerable strides forward, four constraints remain prominent:

- **First, “You can bring the horse to the water, but you can’t make it drink.”** In other words, enabling policies can make a difference but they cannot force the financial sector to be financially inclusive. While all DMBs interviewed reported having financial inclusion strategies, the level of their focus and of the centrality of financial inclusion to their broader strategies varied significantly. Further acceleration of financial inclusion could be helped by adjusting the policies or developing new policies that *mandate* financial inclusion as core to banks’ strategies. This has been done in a number of countries, e.g., in India through the Priority Sector Lending Policy, but requires clear funding, distribution, and reporting to ensure financial inclusion targets have been reached. Such an approach poses a challenge as “mandating” financial inclusion is likely to be seen to directly interfere with commercial organisations and their choices.
- **Second, infrastructural challenges which further foster distrust hamper the implementation and uptake of alternative banking channels and payment systems and are likely to continue to do so.** Electronic banking (through cards, mobile, or any other means) is widely recognised as a strong contributor to financial inclusion. It reduces handling costs, crime, and potential for corruption; so far, however, the uptake of alternatives (both mobile

and card-based) in Nigeria is far from reaching its full potential. Based on our research, two factors are mentioned consistently as driving factors for this suboptimal uptake:

- Lack of trust in electronic systems as compared to cash, exacerbated by the fact that the government—one of the largest banking customers in the country—still relies heavily on cash.
- Poor infrastructural performance.
- **Third, policies and government behaviour are seen to be inconsistent.** Interviewees singled out five different categories of inconsistency to highlight this point:
 - Some CBN policies were seen to be inconsistent with the broader financial inclusion agenda. For instance, the removal of charges on cash deposits that exceeded stipulated limits was seen as being misaligned with the cash-less policy, making it less costly for merchants to handle cash and easier to refrain from using PoS devices in order to avoid the merchant service charges.
 - Policies include ineffective motivators—penalties where incentives might work better and blanket solutions where tailoring would have been more appropriate.
 - Frequent policy changes create insecurity in the system, which makes it difficult for banks to define a consistent path forward.
 - Financial inclusion policies may be at odds with existing policies or regulations, e.g., standardised forms for opening accounts at banks compared to three-tiered know-your-customer (KYC) requirements.
 - The behaviour of various government stakeholders as banking clients is inconsistent with the drive put forth in the policies, weakening the policies' pull and the market's trust in the alternatives. Most importantly, the government is still a very heavy user of cash (as explained above).
- **Fourth, while all of the above represent challenges that many interviewees mentioned and experienced, there are also certain detailed and stakeholder-specific issues that still hamper further focus on and uptake of products and services driving financial inclusion.** (See Table 1 for an overview of some of these findings.)

In terms of internal challenges faced by organisations in implementing financial inclusion policies, most interviewees suggested that any internal/operational changes were in the normal course of business, e.g., they had the systems in place and it was just a need to update how data is reported, or introduce a new product/service into their existing systems. Other internal/operational changes mentioned were:

- Purchasing/investing in new software and reporting systems (e.g., some MFBs around the regulatory guidelines for MFBs).
- Outsourcing software development for mobile applications.
- Incorporating elements of the regulations into training.
- Developing joint/cross organizational teams to focus on project development and launch.

Table 1. Overview of policy-specific findings

Policy	Key findings
Regulatory Framework for Mobile Payments Services in Nigeria (2009)	<ul style="list-style-type: none"> • Mixed review • Biggest challenges in uptake relate to low demand/trust and failing network/connectivity/power requirements • Mixed opinions on whether or not a telco-led model could work
Revised Microfinance Policy Framework for Nigeria (2011)	<ul style="list-style-type: none"> • Generally high satisfaction and high awareness from the key stakeholder group (microfinance banks) • Recommendations focused primarily on greater flexibility on classifications and capitalisation requirements for a new tier (regional MFB) as well as adjustments of certain governance aspects (personnel requirements and non-performing loan [NPL] provisions) to better match the nature of MFB business and clients
Guidelines for the Regulation and Supervision of Institutions Offering Non-interest Financial Services in Nigeria (2011)	<ul style="list-style-type: none"> • Low awareness—was not felt to be relevant for all banks (probably rightly so) • Challenge for those who are working more closely with these services is that a stronger enabling environment is needed around these guidelines, e.g., existing facilities for interbank lending, deposits with CBN, and guarantee mechanisms such as Nigerian Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL) all hinge on interest and therefore are not accessible for a non-interest offering, pricing non-interest banking much higher than ‘regular’ banking
Cash-less Policy (2012)	<ul style="list-style-type: none"> • Mixed review • Biggest challenge for the policy was strong focus on POS/ATM (channels) rather than broader cash-less products and services • Key challenge in implementation around phased rollout and timing thereof
Framework for National Financial Literacy in Nigeria (2012)	<ul style="list-style-type: none"> • Rather limited awareness and satisfaction • Widely shared plea to get broader-based support for a rollout to “take it to the street” beyond in-school financial education, while also incorporating financial literacy into school curricula from primary school (given drop-out rates) onward
National Financial Inclusion Strategy (2012)	<ul style="list-style-type: none"> • Mixed review • Interviewees’ perspectives reflected their strategic focus on financial inclusion. However, while awareness of the policy was wide-ranging – with most interviewees not aware of specific strategy details, implementation was noted as a concern across interviewees. Interviewees raised concerns about the lack of rural focus and lack of focus on enabling environment, i.e., infrastructure
Tiered KYC Regime (2013)	<ul style="list-style-type: none"> • Universally supported • Need to rethink definition of Tier 2 (broadly supported) and possibly adjust Tier 1 to allow higher daily/transaction limits over time (although here opinions are more divergent)
Guidelines for the Regulation of Agent Banking and Agent Banking Relationships in Nigeria (2013)	<ul style="list-style-type: none"> • Supported on paper, with some hesitations to judge satisfaction on implementation • Currently, demand is still too low to create sufficient agent income and increasing demand will likely require further agent penetration. The industry could possibly be helped to break out of this “chicken and egg” problem by supporting it with stronger incentives, but this was not advocated by all interviewees

Revised Guide to Bank Charges (2013)	<ul style="list-style-type: none"> • Strong opposition from DMBs • Strong support to introduce “ceiling charges” and potential to charge for bundles rather than individual transactions. This change will combine customer protection with creating space for the market to be entrepreneurial
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REPORT OUTLINE

The report is structured as follows:

Chapter 1: Provides an *introduction to and the context for financial inclusion in Nigeria*. This chapter also lays out the objectives of this engagement.

Chapter 2: Details the *financial inclusion policy landscape in Nigeria*. The chapter gives an overview of the state of financial inclusion, key constraints, the role of policy, and describes the policy creation process and key players who formulate and influence policy.

Chapter 3: Gives a *detailed assessment of the relevant policies* targeted at financial inclusion in Nigeria. This chapter includes a description of our methodology, a summary of the findings, and a policy-by-policy analysis of stakeholders’ awareness of, satisfaction with, and assessment of the potential impact of recent FI policies.

This chapter presents the findings first by specific policy and then by type of stakeholder. Obviously, this structure creates some overlaps, particularly for policies that apply mostly or even solely to one stakeholder group and that are dominant in shaping the opinion of that stakeholder group:

- For example, the findings on the Revised Microfinance Policy Framework for Nigeria are predominantly driven by interviews with MFBs; this framework is the most important framework for them and thus most strongly shapes their opinion on FI policies. This creates overlap and some repetition between the Revised Microfinance Policy Framework section and the MFB section.
- On the other hand, all stakeholders have involvement with and an opinion on the Cashless Policy. The section on the Cashless Policy thus reflects the inputs of multiple stakeholder groups and also reflects upon the differences between them, whilst the stakeholder sections help to put in perspective how important the Cashless Policy is for a certain stakeholder vis-à-vis other policies.

Chapter 4: Summarises the *recommendations for enhanced impact of policy in furthering the financial inclusion agenda*. Recommendations include those pertaining to the policy environment overall, specific policies, and missing elements not captured in the current policies and regulatory framework.

1. INTRODUCTION

COUNTRY CONTEXT

Nigeria boasts Africa's largest economy and a dynamic financial sector, yet in order to meet its ambitious aim of decreasing financial exclusion to 20.0% for the adult population by 2020, the country's financial sector policies must be carefully calibrated to market realities and customer demands.³ The country has registered impressive economic gains—GDP growth has consistently exceeded the regional average over the last decade. The proportion of Nigerian adults reached by some form of financial services (formal and informal) increased from 47.5% in 2008 to 60.3% in 2012.⁴ Notwithstanding, large swathes of Nigeria's population do not interact with the formal sector in terms of employment, access to varied services including finance, and, ultimately, economic and social opportunity.

A considerable variety of financial service providers exists in Nigeria and they have recently undergone significant changes and continue to evolve. Nigeria's banking sector went through major restructuring in both 2004-2005 and 2009: a number of banks merged, brands disappeared, and some banks failed while other banks were restructured. Compared to similar conversations on financial inclusions with a variety of stakeholders in other African countries (e.g., with banks and banking customers in East Africa), issues of trust in the banking system are mentioned much more frequently in Nigeria, which is to be expected in the aftermath of so many changes. At the same time, the existing policies have created the opportunity for new (types of) players to emerge. The current landscape has a very broad range of players, both niche and broad-based, some of whom focus explicitly on base of the pyramid (BoP) and small and medium sized enterprises (SME) explicitly, some of whom focus on this market segment as part of their entire portfolio, and some whom explicitly do not focus on this market segment. In this landscape, no single player needs to cover all the needs of the unbanked and under-banked—nor does every single player need to focus on these market segments to drive financial inclusion. Different players each provide a subset of products and services to different segments of the market, jointly creating a range of services that provides as full coverage as possible. Some providers focus on specific consumer segments, some on specific products/ services and yet others on specific channels – all in addition to providers who offer a broad suite of products and services.

Over the past few years, the Central Bank of Nigeria (CBN) has introduced a number of policies aimed at enhancing financial inclusion in Nigeria while also supporting the growth and stability of the financial sector, including policies around microfinance, mobile payments, KYC, electronic payments, bank charges, non-interest banking, and agent banking. Starting as early as 2005, CBN has released various policies to encourage the expansion of the formal financial sector toward informally banked and unbanked customers. For example, the tiered KYC regulations (2013) specified guidelines for customer identification, loan assessment, and credit thresholds for low-income

³ Target of 20% referenced in the National Financial Inclusion Strategy, 2012 is derived from Nigeria's Maya Declaration.

⁴ EFInA Access to Financial Services in Nigeria 2012 survey.

customers, with the intent to encourage financial inclusion of BoP customers while minimizing provider risk and illicit transactions. The CBN has also regulated bank charges, agent-bank relationships, microfinance and deposit money bank operations, and mobile payments with similar considerations in mind. The government's policy on financial literacy has drawn from foreign examples and touches on a wide range of public and private sector partners. The framework specifically references examples from an Organisation for Economic Cooperation and Development (OECD) intergovernmental project launched in 2003 on financial literacy, the United Kingdom's Financial Services Authority, the United States' Consumer Financial Protection Bureau, India's Financial Stability and Development Council, and Ghana's Financial Literacy Working Group, among others.

The impacts of such policies on various players—both positive and negative—have yet to be systematically evaluated. Nigeria's deposit money banks, microfinance banks, mobile money operators, and myriad of informal actors all play in the financial services space, with heterogeneous product offerings that remain largely focused on transfer, credit, and savings options. Unfortunately, the policies governing these services operate in a complex ecosystem of both financial sophistication and basic need. Despite a growing number of mobile money operators, financial institutions launching new products focused on a larger population, and the relaxation of documentation requirements to open accounts, customer indifference or suspicion toward banking services makes it challenging to determine what exactly drives the success (or failure) of a policy in impacting financial inclusion outcomes.

It is in this context that EFInA commissioned a study to assess the impact of Nigeria's financial inclusion policies. Only with a thorough and objective evaluation of the impact of these policies can the Nigerian government, especially the Central Bank of Nigeria make informed decisions concerning enforcement, improvement, and replication.

According to the CBN's website, the National Financial Inclusion Strategy will be executed through:

- Agent Banking
- Tiered Know-Your-Customer Requirements
- Financial Literacy
- Consumer Protection
- Linkage Banking
- Implementation of the MSME Development Fund
- Credit Enhancement Programmes

The policies assessed and in turn, the stakeholders interviewed do not represent an exhaustive list of the CBN's implemented policies on financial inclusion, and organisations impacted by these policies. Any further reviews of FI policies will include areas that were not assessed in this study such as the Credit Enhancement Programmes, and organisations such as DFIs.

METHODOLOGY

It is very difficult, if not impossible, to isolate and attribute an effect of a financial inclusion policy or regulation. The effect of a policy is dependent not only on the soundness of the policy, but also on the success of the implementation (which in turn is determined by a mix of capacity, capability, willingness, priority, and many other factors that characterise policymakers, policy implementers in government, and private and social sector counterparts), as well as other initiatives taken in parallel, e.g., by private or social sector stakeholders. Sometimes the effect of a policy is limited by the simple lack of awareness of the policy on the part of stakeholders, and by limited opportunities for government to help raise awareness—akin to ‘killing the initiative in the crib’. As such, the methodology and approach to this study does not seek to disentangle the effect of each of these elements in isolation, but rather seeks to understand the effectiveness of the changes in total, with a clear eye toward the broader ‘enabling environment’ of the financial sector into which these policies are released and which they subsequently attempt to shape.

We identified a number of steps—from planning to implementation to results—to discuss with a range of actors in the financial sector. In particular, Dalberg’s approach aimed to understand the challenges and successes that flowed from the architecture or content of the policy documents as well as understand the hurdles and opportunities that arose in the implementation of the policies. However, while this study does attempt to understand each of the elements affecting the supply of financial services to draw conclusions on how to improve financial inclusion through policies, it does not aim to understand causality.

Our primary research method was to interview key stakeholders in Nigeria’s financial sector landscape. We tailored interviews based on the background research we conducted on individual organisations and policy documents; we include this research where relevant to the analysis of stakeholder perspectives and findings.

DATA COLLECTION

As a starting point, Dalberg conducted a detailed document review (Nigeria’s National Financial Inclusion Strategy as well as all policies relevant to the study), past research by EFINA, and research conducted by a range of other actors. The data already collected in EFINA’s Access to Financial Services in Nigeria surveys—e.g., changes in access numbers over time, etc.—provided an important baseline against which to test impact (although after the fact). This exercise formed the basis for the refinement and identification of assessment criteria and the design of the interview guide.

STAKEHOLDER INTERVIEWS

We developed our outreach list based on guidance from EFINA and a scan of existing actors on the supply side—those providing financial services into the market or regulating this supply.

Over the course of the engagement, we interviewed a range of financial services actors in the following categories:

- Deposit money banks: 15
- Microfinance banks: 10
- Mobile money operators: 10
- Agent network aggregators: 4
- Mobile network operators: 4

- Card issuance companies: 3
- Industry associations: 3
- Microfinance institutions: 1
- Non-interest financial institutions: 1
- Regulators⁵: 1
- Switch: 1

A detailed list of the organisations we interviewed is included in *Annex III: Organisations interviewed*.

We report in a disaggregated manner only those stakeholder groups with whom we completed four or more interviews. To ensure the anonymity of feedback, names of the individuals interviewed are not included in the report and specific interview findings are not attributed to individual organisations.

INTERVIEW OBJECTIVES

For each category of interviewee, we developed detailed structured questionnaires to guide the discussion and ensure regularity of data collected during the study. Interviews consisted of two broad categories of questions: general questions and questions that relate to specific policies. The overall questions addressed the following subcategories: general importance of financial inclusion to the organisation, awareness of policy/framework, satisfaction with policy/framework (which includes an assessment of its comprehensiveness and its implementation), implementation of measures (beyond the policy itself), and outcomes/results.

Every interview contained a mix of these general questions and policy-specific questions. We mapped the policies against the stakeholders to indicate which policies were relevant to discuss with which categories of stakeholders (presented in Figure 1), and used this to develop the questions. To make the most of every interview, we selected questions based on the knowledge and experience of the interviewee and the specific needs of the study at that point in time. In the early stages of the study we explored topics more broadly, whereas later in the study the questions and discussions were more targeted toward clarifying certain findings and testing hypotheses developed from previous interviews.

As such, the interview guides balanced a mix of uniformity and customisation. While some questions were similar across the categories or policies, we also customised the interview questions for each category based on the following axes:

- Stakeholder orientation and activities: depending on the specific activities of the organisation (for example, number of bank customers/accounts, membership/participation in industry associations, involvement in financial inclusion activities, etc.); and
- Policy specific differences: nuances within the policies themselves.

⁵ While we conducted further outreach throughout the study to a range of government parastatals, it was not possible to confirm meetings during the period of the engagement. Further engagement will be sought out during and after report finalisation to ensure that key findings and policy recommendations are widely disseminated and fully understood.

The key questions can be summarised as follows:

- **Financial inclusion strategy:** Is financial inclusion a priority within the organisation? Is there a strategy for attracting the unbanked and under-banked? If there is a strategy, what elements have been implemented? Is there a specific department focused on financial inclusion?
- **Awareness and implementation:** What is the level of awareness and implementation of the relevant policies/regulations within organisation?
- **Experience with policies:** What is the experience of the organisation in implementing the various policies/regulations? In terms of deepening financial inclusion, which aspects of the policies were:
 - Beneficial, and why?
 - Detrimental, and why?
 - Difficult to implement, and why?

Of the policies that the organisation is aware of / has implemented, what aspects, if any, could be improved upon to significantly deepen financial inclusion in Nigeria?

- **Internal challenges:** What challenges does the organisation face in trying to implement these policies/regulations, e.g., compliance, operational risk, re-configuring internal processes, capacity, infrastructure, etc.?
- **Impact:** What is emerging evidence of the impact of the relevant policies/regulations on deepening financial inclusion (noting that direct attribution/establishing causality is impossible)? What are the opportunities outside of policies to greatly increase financial inclusion in Nigeria?

We include a detailed listing of the questions from a sample stakeholder group in *Annex II: Sample interview guide*.

For some stakeholders, we also included upfront questions to test their familiarity/involvement with certain activities, which allowed us to skip some questions/policies altogether. The matrix below represents an overview of policies that we explored in each of the different stakeholder interviews.

Figure 1: Mapping financial inclusion policies to relevant stakeholder groups

	Deposit Money Banks	Microfinance Banks	Agent Network Aggregators	Mobile Money Operators	Mobile Network Operators	Switch (Nigeria Inter-Bank Settlement System, NIBSS)	Card Issuance Companies	Industry Associations
National Financial Inclusion Strategy (2012)	+	+	+	+	+	+	+	+
Microfinance Policy Framework (2011)		+						+
Regulatory Framework for Mobile Payments Services (2009)	+	+	+	+	+	+		+
Guidelines on Non-interest Window and Branch Operations of Conventional Banks and Other Financial Institutions (2010)	+	+						+
Cashless Policy (2012)/POS Guidelines (2011)	+	+	+	+		+	+	+
Tiered KYC Regime (2013)	+	+		+	+			+
Revised Guide to Bank Charges (2013)	+	+				+	+	+
National Financial Literacy Framework (2012)	+	+						+
Guidelines for the Regulation of Agent Banking and Agent Banking Relations (2013)	+	+	+	+	+	+		+

ANALYSIS

We first collated interview feedback with a focus on specific policies. The responses from the 53 stakeholder organisations included comments and recommendations on the policy content as well as on the implementation of policies. Further, we compiled feedback on the level of stakeholder awareness of the individual policies as well as stakeholder satisfaction with these policies. We supported this more quantitative summation with the qualitative stories and recommendations gathered in interviews. Because of the variation noted across and within stakeholder groups, we have also aimed to spotlight those stakeholder groups with sample sizes greater than four. For each of the policies, and also for each of these stakeholder groups, we have identified some of the drivers of these variations in awareness and satisfaction. Based on a review of the stakeholder feedback and the constraints affecting financial inclusion, we then developed a set of recommendations that may be actionable from a policy perspective, as well as comments that would not necessarily support policy change or actions, but should support increased supply-side focus on banking the unbanked and the under-banked and drive financial inclusion.

POTENTIAL BIASES

Based on the timing of the interviews and the context of the financial inclusion study, we have highlighted three potential biases that may have affected the assessment:

- *Appointment of the new Central Bank Governor.* The appointment of the new Central Bank Governor in the months before the interviews were conducted in addition to a number of recent policy changes related to the financial inclusion policies tested, may have caused interviewees to emphasise concerns about changes to the policy environment, strategic focus on and overall direction of the financial inclusion agenda.
- *Organisations sponsoring the study and holding the interviews.* EFINA and Dalberg have missions which are focused on financial inclusion and supporting global development,

respectively. The initial outreach, response rates from interviewees, and interview feedback may have been biased by the background of EFINA and Dalberg. For example, those organisations we have interacted with previously on topics of financial inclusion and access to finance may have been more willing to hold interviews than those with whom we had not previously interacted.

- *Focus on financial inclusion.* Because the study focused specifically on financial inclusion policies, those organisations responding to requests for interviews and those individuals attending the interviews may be less representative of the sector.

2. OVERVIEW OF FINANCIAL INCLUSION POLICY ENVIRONMENT

A number of studies have documented the current state of financial inclusion in Nigeria. EFINA's Access to Financial Services in Nigeria survey found that less than half of Nigerian adults (18 years or older) use either banks or mobile money, with 43.0% of adults formally included, and only 32.5% of adults have access to a deposit money bank account. The same survey found that 17.3% of adults use informal financial services, including *esusu*, *ajo*, savings clubs and cooperatives.⁶

Nigeria's considerable population size means that these percentages represent a significant number of adults that are formally and/or financially excluded.⁷ With an adult population of 87.9 million people as a base, the EFINA Access to Financial Services in Nigeria 2012 survey revealed that 37.8 million adults are formally included and 34.9 million adults are financially excluded in Nigeria. The specific nuances of the demographics of the financially excluded or formally included populations—e.g., urban/rural, gender, geopolitical zone, ethnicity, income, etc.—are covered in EFINA's 2012 survey and EFINA's 2010 Financial Services Landscape in Nigeria. **The situation that these reports describe is dire.** Only 38.3% of Nigerian adult females are formally included, compared to 47.4% of Nigerian adult males. The exclusion is particularly large in rural areas: only 23.8% of rural adult dwellers are active bank account holders⁸.

Solutions—deployed by institutions as well as delivery channels—that have been effective in other markets, for example mobile and microfinance, have not been as successful in Nigeria. According to EFINA's Access to Financial Services in Nigeria 2012 survey, only 0.5% of the adult population are registered mobile money account holders and 5.2% of adults in Nigeria have an account with an MFB, compared to 32.5% whom have an account with a DMB.

⁶ EFINA Access to Financial Services in Nigeria 2012 survey

⁷ Based on the EFINA Access to Financial Services in Nigeria, 2012 survey, the terms may be defined as follows: Financially included or financially served refers to those adults whom are banked (deposit money bank), served by other, formal non-bank financial institutions, e.g., microfinance banks, insurance, remittances via formal channels, etc., and via informal financial institutions. Formally included refers to those adults whom are banked and those served by other, formal non-bank financial institutions.

⁸ *ibid*

There is a range of complex and interrelated constraints that contribute to financial exclusion in Nigeria. Table 2 —summarised from the 2010 EFinA report *Financial Services Landscape in Nigeria*— provides an overview of the contextual, systemic, regulatory, organisational and product-based, and demand constraints that contribute to financial exclusion in Nigeria. Many of these constraints were also raised in the course of stakeholder interviews for this study.

Table 2: Overview of factors contributing to financial exclusion in Nigeria

Contextual constraints <ul style="list-style-type: none"> - Demographic and poverty pressures - Complex political organisation - Poor level of infrastructure - Financial sector culture - Public interventionism - Lack of policy coordination 	
Regulatory constraints <ul style="list-style-type: none"> - Mobile payments regulation - Know Your Customer - Interest rate caps - Secured transaction law - Bankruptcy laws - MFB regulation 	Systemic constraints <ul style="list-style-type: none"> - Skewed delivery infrastructure - Lack of financial sector data - Lack of credit information - Absence of an integrated ID system - Skills shortage
Organisational and product-based constraints <ul style="list-style-type: none"> - Physical accessibility - Appropriateness - Affordability 	Demand constraints <ul style="list-style-type: none"> - Gender-related constraints - Income-related constraints - Ethnicity - Financial capability

The categories in this table offer levers for improvement. For example, the organisational and product-based constraints are mostly within the control of the financial institutions themselves, but these institutions do not operate in a vacuum: e.g., their cost of capital (which can be impacted by, for example, government-supported lending windows) drives product characteristics, which impact affordability. Some of these constraints are most effectively and efficiently tackled by policies while others may not be.

Contextual constraints

- The peculiar characteristics of some groups within the unbanked segment, such as the itinerant urban youth, make it difficult for them to access financial services. These characteristics contribute to the groups' exclusion by some of the KYC requirements—they are unable provide adequate identification due to the limited reach of the national ID scheme and are unable to present proof of residence/abode (such as utility bills).
- The complex nature of the government and administrative structure in Nigeria, often prevents it from being nimble and quick to create and implement pro-inclusion policies, also creates an environment where financial sector information is not centralised.

- Poor quality of fixed line telephony and intermittent power supply are key challenges to the rollout of ATMs and POS devices.
- “Public interventionism” in the financial sector can exclude the private sector and distort the market, e.g., the provision of state-backed microfinance loans. Though there was no “compelling evidence” that these interventions constrain access, there is a need for the government to engage in more groundwork before formulating and implementing these interventions, in particular ensuring demand-driven design and cooperation with the private sector.
- An overall lack of policy coordination has contributed to limited progress in key financial access indicators.

Regulatory constraints

- Some stakeholders feel strongly that the prohibition of a telco-led model will hinder the adoption of mobile money.
- The KYC requirements under the Anti-Money Laundering & Combating the Financing of Terrorism (AML/CFT) regulations, though revised to allow for some flexibility, are not necessarily felt to be void of constraints to access.
- The current microfinance regulatory framework has seen the creation of several small and weak microfinance institutions that are poorly capitalised and run a high risk of failure.

Systemic constraints: The lack of an integrated national ID system and a proliferation of parallel ID systems remains a barrier to financial inclusion.

Organisational and product based constraints: Affordability – banking is considered to be expensive, for the majority.

With respect to the policies studied, we offer the following observations:

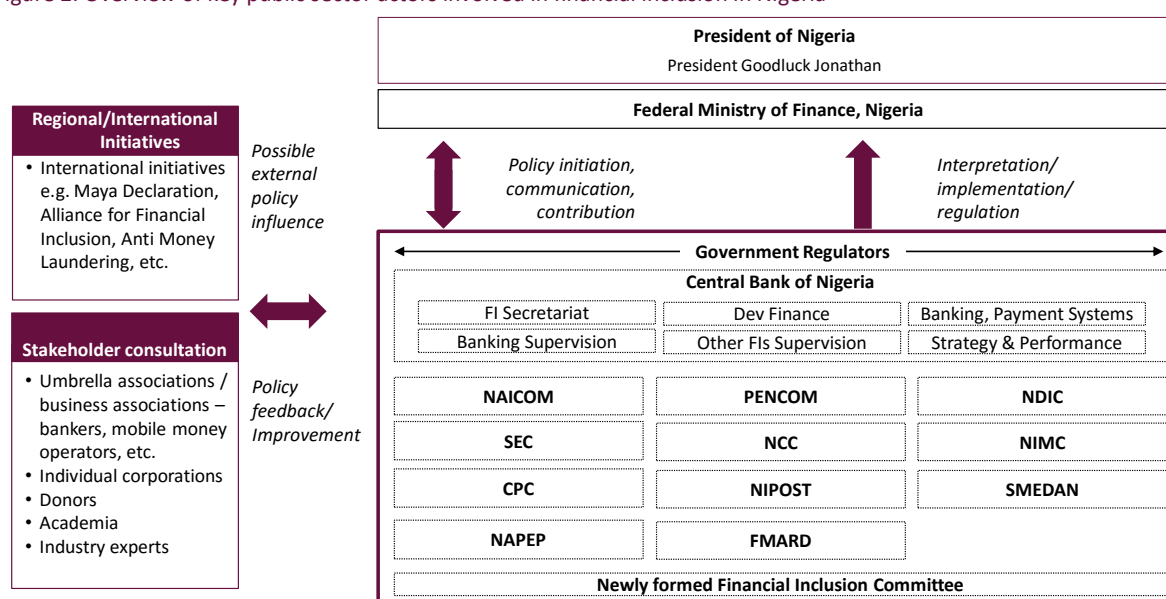
- Constraints around KYC have been addressed in the Tiered KYC regime, which now provides different levels of KYC requirements. The lowest level of KYC caters to the demographic that is unable to provide ID documents and utility bill as proof of residence.
- Although the Nigerian Communications Commission (NCC) has recently created quality of service (QoS) indicators, they do not fully address the concerns of financial sector stakeholders, who still complain of challenges around network and connectivity.
- There were several complaints around the “regulator-monopoly” operated by Nigeria Inter-Bank Settlement System (NIBSS, partly owned by the CBN), as the national switch. As the sole switch, the success of every transaction hinges solely on its operations. This arrangement does not provide adequately for redundancy should the switch experience downtime.
- There are still complaints around policy coherence, with some policies/regulations inconsistent with others. For instance, the removal of charges on cash deposits and the

changes to ATM charges (reduced from the original NGN 100 tariff to zero and then NGN 65) have made it less costly to handle cash—which is not aligned with the principle behind the 2012 Cashless Policy.

- There remains speculation that the prohibition of a telco-led model—such as Safaricom’s M-PESA in Kenya, for example—has posed an obstacle to the significant uptake of mobile money in the Nigeria.
- The updated Microfinance Policy Framework stipulates capital, training, and reporting requirements, which supposedly contribute to the development of stronger organisations. There are, however, arguments both for and against the adequacy of the capital requirements.
- Osun State offers a clear example of the benefit of a central identification (ID) system—an MMO piloting a product in the state claimed the existence of the state’s central ID system was beneficial to the rollout of its mobile money product as it did away with the inability to uniquely identify customers which is a frequently cited barrier for adoption.
- The Revised Guide to Bank Charges is allegedly more favourable to the demand side with several reductions to charges that potentially reduce the cost burden on the customer.

Within the realm of policy, a number of actors are involved in regulating the financial services sector. No fewer than twelve government agencies or ministries are directly involved with policy initiation and design, communication, and interpretation. Because financial inclusion requires a multidisciplinary/multi-agency effort touching a range of channels, services, and geographies, each of these agencies or ministries is directly involved in financial inclusion. The National Financial Inclusion Strategy identifies 48 regulations and policies with “some impact on Financial Inclusion.” Figure 2 provides an overview of the key actors, the interrelations between them, and their roles with regard to financial inclusion.

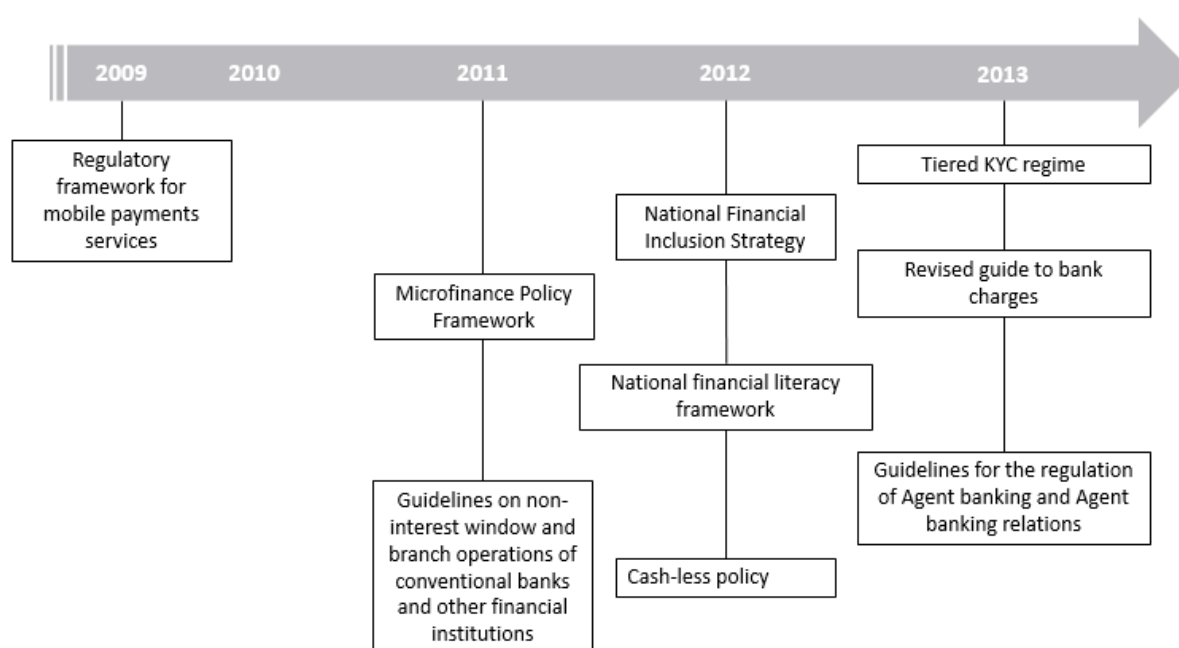
Figure 2: Overview of key public sector actors involved in financial inclusion in Nigeria



With regard to financial inclusion, regulators must strike a difficult balance between protecting consumers and encouraging them to adopt formal financial services, ensuring the stability of the financial services sector (and by extension the economy), and supporting competitive, dynamic, and innovative private sector players in offering a diversity of financial products and services across Nigeria. Over the past five years, a number of policies have been developed to support inclusive financial services. Even though the 2012 National Financial Inclusion Strategy was developed and released later than some of the early financial inclusion related policies, the Strategy coupled with the Central Bank’s signing of the Maya Declaration in 2011 provides an overarching framework and clear set of goals up to 2020. In particular, the National Financial Inclusion Strategy defines the state of financial inclusion (as of 2010); identifies the key players, policies, and constraints; and sets targets, defines activities, proposes responsibilities to reach the targets by 2020.

It is noteworthy that these “financial inclusion policies” have been released during a particularly challenging period for the financial services sector in Nigeria characterised by the closure of large numbers of microfinance banks by the CBN, consumer pay-out by the Nigeria Deposit Insurance Corporation (NDIC), and the banking crisis of 2009/2010 that diminished consumer confidence and trust. The policies thus balance a relatively strong focus on the financial health of institutions, consumer protection, and anti-money laundering protocols, in addition to encouraging new account openings across a range of channels and offerings. Figure 3 offers a release timeline of the policies we focus on in this report.

Figure 3: Release timeline for policies discussed in the study



Each of these policies pertains to different stakeholder groups and sub-sectors of the financial services sector. We include summary descriptions of each of the policies in Table 3, as well as detailed descriptions in *Annex 1: Summary of Financial Inclusion Policies*.

Table 3: Overview of policies discussed in the study

Policy	Short description
Regulatory Framework for Mobile Payments Services (2009)	<ul style="list-style-type: none"> Provides a framework for all mobile payment platforms, laying out the roles and responsibilities for the different players
Revised Microfinance Policy Framework for Nigeria (2011)	<ul style="list-style-type: none"> Provides guidelines for operating in the Microfinance Banking segment as well as national targets for a 10% annual increase in access to microfinance services by economically active, poor adults Following significant MFB failures in the 2000s which has led to continued poor consumer confidence in the security of their savings, this policy provides a framework for shutting down underperforming MFBs, identifying those MFBs that may need access to capital support, ensuring clear guidelines for reporting and oversight, and adequately preparing MFB management teams (through mandated training) in the core business skills needed to run an MFB
Guidelines on Non-Interest Window and Branch Operations of Conventional Banks and Other Financial Institutions (2011)	<ul style="list-style-type: none"> Focuses specifically on: <ul style="list-style-type: none"> Non-Interest Banking based on Islamic principles and Non-Interest Banking based on other established principles <p>The objective of the guidelines is to provide minimum standards for the operation of non-interest banking in Nigeria</p>
Cash-less Policy (2012)/Guidelines of POS and Card Acceptance Services (2011)	<ul style="list-style-type: none"> Aims to reduce the use of cash and as a result, curb the negative consequences associated with cash handling The Guidelines on POS and Card Acceptance Services are directly linked to the Cash-less Policy and have implications for the structure of card payment activities in the country
National Financial Literacy Framework (2012)	<ul style="list-style-type: none"> Aims to strengthen financial literacy, increase the abilities of individuals and firms to generate and save income, and create a platform for stakeholder engagement and interaction around financial inclusion
National Financial Inclusion Strategy (2012)	<ul style="list-style-type: none"> Provides an overarching framework for Nigeria's state of financial inclusion (as of 2010) and goals (to 2020), as well as an implementation plan to increasing access to financial services across Nigeria Includes regulatory requirements and policy recommendations for reaching the 2020 goals and identifies key stakeholders, roles, and responsibilities
Tiered KYC Regime (2013)	<ul style="list-style-type: none"> Amends paragraphs of the 2009 regulation and now allows for three tiers of KYC requirements. The objective of the policy is to deepen financial inclusion by ensuring the application of flexible account opening requirements for low- and medium-value accounts
Guidelines for the Regulation of Agent Banking and Agent Banking Relations (2013)	<ul style="list-style-type: none"> The overall aim of the guidelines is to enhance financial access in hard-to-reach areas and underserved markets through an agent banking model
Revised Guide to Bank Charges (2013)	<ul style="list-style-type: none"> Provides a standard for the application of charges DMBs levy on customers (individuals, corporations, government). The objective of the guide is to enhance flexibility, transparency, and competition of the Nigerian economy, and minimise conflict between banks and customers

The policies covered in this report were developed, released and are regulated by the Central Bank of Nigeria. Policy creation and interpretation falls to a range of departments within the CBN namely: Banking Supervision, Development Finance, Banking and Payments System, Consumer and Financial Protection, etc. Each of the departments will normally propose new policies or policy updates based on market data and research, feedback from stakeholders, and directives and guidance from the Committee of Governors, Ministry of Finance, and the President of Nigeria.

In the policy creation process, the CBN department in charge usually seeks input from stakeholders on exposure drafts before releasing final versions of the policy. However, there is no consistent blueprint for the number and types of stakeholders the department engages, nor at what stage in the process it does so.

Exposure drafts of each of the policies are normally published on the CBN website and in the national gazette, with notification to key stakeholders. Depending on the policy and its reach, the CBN holds periodic and *ad hoc* meetings with different stakeholder groups to disseminate new and revised policies, or for those deemed to be particularly complex.

Some stakeholders are of the opinion that policies (and their exposure drafts) are published too often, leading to fatigue on the part of the stakeholders. There is no planned policy release timetable to support prior notice nor are there consistent timeframes for releasing new policies. In addition, there have been frequent policy shifts, reversals, and revision in the recent years, which may be due to a number of causes including, consumer and financial institution pressure, or perceived pressure.

3. ASSESSING NIGERIA'S FINANCIAL INCLUSION POLICIES

OVERVIEW OF FINDINGS

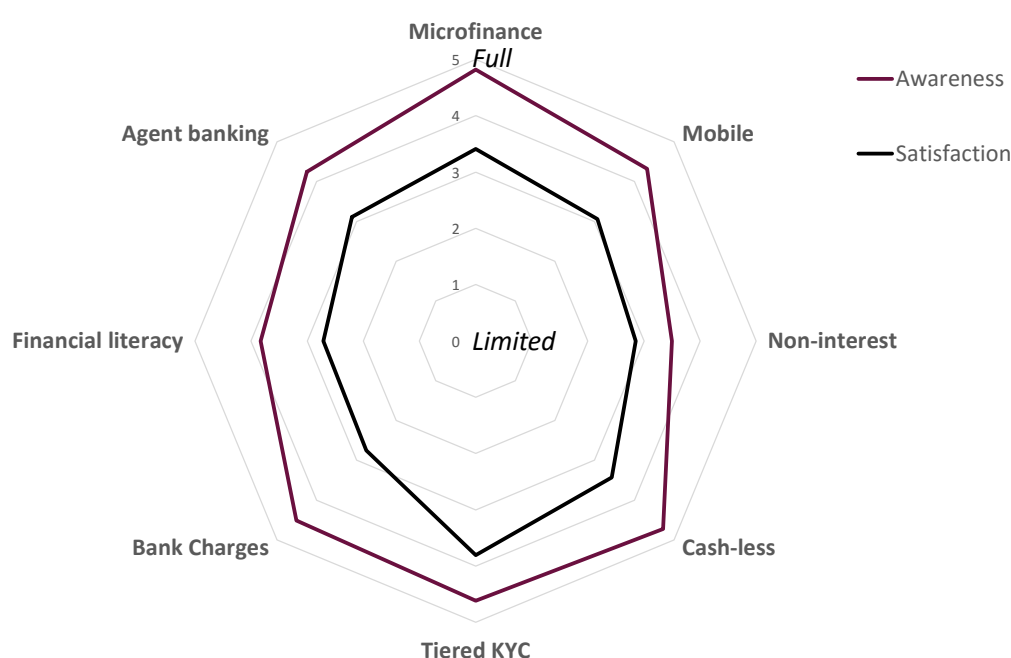
Despite persistent questions, FI policies are strongly needed as they allow the Central Bank to regulate an industry that has witnessed significant hurdles over the last few decades and still suffers from public mistrust. The stakeholders we interviewed see some of the policies as contributory towards the stabilisation of the sector. For instance, the Revised Microfinance Policy Framework—which stipulates different capital, training, and reporting requirements—is generally seen to have a positive effect on the microfinance sector, though opinions differ on the suitability of the capital requirements for the unit and state microfinance banks, with some considering the stipulated amount for the unit license to be inadequate to sustain a bank. The failure of microfinance banks in the 1990s and 2000s is seen to be largely due to inadequate capital bases which were quickly eroded by lending and operational expenses. Despite the fact that both DMBs and MFBs have undergone recent restructuring, the study revealed a higher level of trust in DMBs than in MFBs. This could be due to the size of DMBs, which have much larger capital bases and wider networks of branches.

Though the level of trust is higher, mistrust is not entirely absent. As examples of the general levels of public mistrust, discussions with supply-side interviewees suggested that consumers still preferred cash-based transactions, regularly checked accounts for errors, employed their own staff to conduct end-of-month account reconciliations to “check on the bank”, and had issues with duplicate POS and ATM transactions.

The Tiered KYC is also seen as contributory to the stabilisation of the sector. Corruption and fraud constitute some of the key concerns in the country's financial sector. However, in a bid to tackle this, KYC requirements necessitated the provision of extensive personal and corporate information by the customer to the bank. This somewhat contributed to the exclusion of those who are unable to provide the requisite identification documents or proof of address. However, the new tiered regime is more cognizant of realities which include the lack of a national ID and the limited ownership of other identity documents such as drivers' licenses and passports. This has enabled the banks to open more accounts for customers whom they would previously have been unable to serve.

Obviously, not all players are equally satisfied with each policy. As we will explore in detail in the sections focused on each type of stakeholder, the disparity in satisfaction is partially driven by differences in interests. The figure below shows average stakeholder awareness and knowledge of the FI policies. There is a spread in the scores between different stakeholders groups as well as a variation within stakeholder groups.

Figure 4: Satisfaction with and awareness of the different policies⁹



Nevertheless, the policies explored in this study have created an enabling environment that is more conducive to financial inclusion. Many financial institutions have developed new offerings and/or have been able to grow the volumes of their products targeted at the unbanked and under-banked.

⁹ For the National Financial Inclusion Strategy we include findings from summary and disaggregated ratings given the general lack of awareness of the strategy document and thus unwillingness to share ratings, with the majority of interviewees not rating the strategy. A number of stakeholders asked the interviewers to share the strategy document following the discussion.

In terms of process, the CBN is seen to **be responsive and collaborative** in its general inclusion of sector players when crafting policy, though it does not take all recommendations into consideration. MFBs feel less heard than DMBs. There were also complaints around the high frequency of releases and revisions of policies, the concern being that not enough time is allowed for digestion and implementation of existing policies before new ones are introduced, which could have a negative impact on the stability of the financial sector.

However, four issues remain as constraints despite these strides forward:

First, “You can bring the horse to the water, but you can’t make it drink.” In other words, enabling policies can make a difference but they cannot force the financial sector to be financially inclusive. As an example, while all DMBs interviewed reported having financial inclusion strategies, the depth of the strategies and the impact on the core business strategy varied significantly. Further acceleration of financial inclusion could be helped by adjusting the policies or developing new policies that *mandate* financial inclusion. This has been done in a number of countries, e.g., in India through the Priority Sector Lending Policy, but requires clear funding, distribution, and reporting to ensure financial inclusion targets have been reached. Such an approach poses a challenge as “mandating” financial inclusion is likely to be seen to directly interfere with commercial organisations and their choices. Stakeholders vary in their organisational and commercial appetites for banking the under-banked and unbanked, depending at least in part on a combination of assumptions, mission, and strategy—which in turns further drives organisational processes, skills, and product portfolio. In generally, the following classification applies:

- Microfinance banks generally have financial inclusion as a core, strategic focus as compared to deposit money banks and other financial institutions, offering a broad range of products to the under-banked and unbanked segments
- Deposit money banks are either broadly focus on all income segments with some effort to incorporate under-banked and unbanked segments (often for competitive distinctions), or else focus on high income segments with targeted financial inclusion products to capture low-cost capital

Other financial institutions have varied financial inclusion strategies—whether part of the core business or strategy or not—with a range of financial products that may serve the under-banked and unbanked segments of the population.

The policies have made it easier to bank the unbanked and under-banked, but the degree to which a financial institution will take up the mantle of financial inclusion will entirely depend on the commercial/organisational value it sees. In a country where the cost of capital is high, almost all financial institutions have identified deposits from the base of the pyramid (BoP) and small and medium enterprises (SMEs) as important sources of capital that have become easier to unlock with, for example, tiered KYC. But far fewer financial institutions offer more substantial financial instruments such as payment products and, more importantly, loans. This offering seems to be limited to those MFBs and MFIs already focused on such products before the policies were put in place. It is not surprising that *enabling policies* have this type of impact—these are policies which support behaviour from financial services actors but do not prescribe it. If one wanted to take it one step further, *mandating policies* are an option—these are policies which force or prescribe particular

behaviour on the part of financial services actors (such as the Priority Sector Lending Policy in India whereby banks are required to extend a certain percentage of their loan portfolio to certain income groups). However, as various players are quick to point out, this would directly interfere with strategic choices by commercial players in the sector.

Second, infrastructural challenges which further foster consumer mistrust hamper the implementation and uptake of alternative banking channels and payment systems and are likely to continue to do so. Electronic banking (through cards, mobile, or any other means) is widely recognised as a strong contributor to financial inclusion. It reduces handling costs, crime, and potential for corruption. In fact, many of the stakeholders interviewed—particularly DMBs and MFBs—cited the very high handling costs of cash, including the need to iron notes and to transport them to ATMs under heightened security, which sometimes even required the use of helicopters. So far, however, the uptake of alternatives (both mobile and card-based) in Nigeria has not come close to reaching its full potential. As many interviewees pointed out, the growing volume of cashless transactions mostly comprises business-to-business transactions or the interaction of a consumer with a very specific supplier of goods and services. For example, according to interviewees active in agent banking and mobile money, consumers tended to deposit just enough money into their mobile wallet to pay their utility bills—but they would not use their mobile wallet as their “general” wallet where consumers keep their cash and which they use for daily transactions. Similarly for card-based transactions, customers focus mostly on ATM use—the main chain in an economy which is primarily cash-based. Two factors continue drive this suboptimal uptake:

- **Lack of trust in alternative banking channels, which is not helped by the continued reliance of the government—one of the largest banking customers in the country—on cash transactions.** Whilst not completely disconnected from the infrastructural performance issues outlined below, there also is an underlying trust issue with electronic transactions. Consumers struggle to let go of the notion of cash as it is a tangible form of money they can physically control. Faith in an electronic payment system requires trust in both the infrastructural backbone (Will my payment go through? What happens when the power is down or the network is unresponsive?) and the organisations involved in handling these payments. The electronic payment system—and its potential breakdown points—may include a consumer’s own bank, the bank of the counterpart, a mobile money operator, a telco, and any other back-end service providers such as the switching company. A number of interviewees across different types of stakeholders indicated that a lack of understanding and knowledge fuels this distrust. They strongly suggested that the government should take the lead in using electronic payments which will improve trust in these alternatives. Government could, for example, pay government salaries exclusively electronically and provide pension or social grant benefits via mobile wallets.
- **Poor infrastructural performance.** One of the major reasons for the limited propagation of the Cashless Policy is the problem posed by suboptimal telecommunications infrastructure. Poor network signal has caused the failure of several electronic transactions on POS terminals, ATMs, and mobile and internet banking platforms, which constitute the major electronic channels in the country. Banks inundated with complaints due to the uncertainty of transactional success. This state of affairs has encouraged the continued use of cash, which is costly to handle, transport (due to poor road network infrastructure), and load into

cash machines that are expensive and time-consuming to maintain. The poor maintenance of some ATMs has led to instances of customers being unable to withdraw cash. Without faith in the functionality of ATMs, some customers prefer to keep their cash in hand rather than in the bank so as to avoid the necessity of queuing in a banking hall in order to access their funds.

Third, policies and government behaviour are inconsistent. Interviewees mentioned five different forms this inconsistency takes:

- Specific financial inclusion policies are at times internally inconsistent. The Revised Guide to Bank Charges is an example of this. To many interviewees, removing charges on cash handling and ATM withdrawals (and/or increasing withdrawal limits) and then reintroducing them at a lower rate seems to work against the principle of the Cashless Policy as it essentially makes it cheaper for key stakeholders (such as retail merchants) to handle cash rather than to encourage their customers to pay electronically.
- Policies include ineffective motivators—penalties where incentives might work better and blanket solutions where tailoring would be more appropriate. Stakeholders also maintain that sanctioning contrary behaviour (through charges) does not encourage the adoption of desired behaviour. They also suggest that the financial inclusion policies are not adequately nuanced to reflect the uniqueness of the different user segments, in terms of scale of operations (for merchants and corporations), literacy levels, mobile phone usage patterns, spending patterns, etc. For instance, POS merchant fees are the same across the board, despite having varying impact on the bottom line and the eagerness of businesses to use POS machines as a payment channel.
- Frequent changes create insecurity in the system, which works against the ability of banks to define a consistent path forward.
- Financial inclusion policies may be at odds with existing policies or regulations in related areas. Considering the cross-platform nature of the financial inclusion policies, stakeholders flagged the absence of supportive regulations in industries other than the financial sector. For instance, the Nigerian Communications Commission does not regulate elements around infrastructure for mobile money payments, though the telcos are largely responsible for the success or failure of the transactions. There is no proactive regulation for infrastructure and quality of service to encourage uptime consistency and provision of redundancy in case primary systems fail. Also, there are no regulations to ensure the telcos' charges are fair and not anti-competitive (some stakeholders suggested that, since they cannot lead any mobile payment initiative, telcos don't prioritise enabling mobile money and might even deliberately charge very high fees – hoping for a revision of the policies that *will* enable them to develop and lead their own mobile money initiatives).
- The behaviour of various government stakeholders as banking customers is inconsistent with some of the objectives of the financial inclusion policies, weakening their pull as stakeholders and the market's trust in alternative electronic payment options. Most importantly, the government is still a very heavy user of cash (as explained above).

Fourth, whilst all of the above inconsistencies represent challenges that many interviewees highlighted, **there are also certain detailed—and stakeholder-specific—issues that still hamper further focus on and uptake of products and services that drive financial inclusion.** This is most visible with the non-interest banking window, where the policy provides a great starting point, but fails to create a level playing field across banks with and without a non-interest banking window. For example, banks offering such non-interest financial services (or even more so, those focusing exclusively on them) do not have access to a variety of CBN funds at favourable conditions for their own capitalisation, because all of these are interest-based, and are therefore prohibited.

ASSESSMENT OF SPECIFIC POLICIES

REGULATORY FRAMEWORK FOR MOBILE PAYMENTS SERVICES (2009)

We discussed this policy with all interviewees, with the exception of card issuance companies.

POLICY CONTENT

Interviewees frequently described the framework for mobile payment services as rather old and not fully reflecting current realities, although few interviewees were specific about required changes. A stakeholder that was actively involved during the formulation stages mentioned the need for reiterations of the policy that take more recent feedback on the framework into account based on changes to the sub-sector in the past three years. Another stakeholder who sat on the policy review panel of this policy, which he described as “intense” felt the recommendations of the panel were not been implemented. However, there is speculation among the interviewees that a new policy release is on the horizon. One large MFB cited insufficient protection for banks as a real hurdle to the uptake of mobile money—the framework protects customers in case of technical faults or fraud, but does not include insurance or resolution mechanisms, meaning the banks would be liable to make repayments or take legal action in the case of fraud to recuperate any lost money.

Most interviewees agreed with the principle not to allow telco-led mobile money—many interviewees feared that a telco-led service would put too much power in the hands of telcos, which would have the effect of driving up costs. At the same time, most interviewees mentioned that in the absence of an opportunity for them to take the initiative, telcos seem to be reluctant to provide essential services for mobile money, e.g. not providing sufficient uptime and charging relatively high USSD costs. Some of the telcos were of the opinion that the DMBs lobbied extensively to bring about a framework that favours them and is less accommodating of the telcos, especially because of the success of another telco, Safaricom, with M-PESA in Kenya.

IMPLEMENTATION

Mobile money has not yet experienced a huge uptake in Nigeria. Whilst the number of mobile money accounts and transactions is growing, the penetration into the retail segment is still limited. For example, last mile delivery of Coca Cola is fully cash-less—shopkeepers must pay for delivery using mobile money (which subsequently cascades up the value chain). But rather than using his/her mobile wallet as the “default general wallet” from which to deal with most financial transactions, most shopkeepers will load the amount for the specific delivery in cash onto their mobile wallet at a nearby agent just before and just for the delivery—using the mobile wallet mainly as a pass-through mechanism.

The major hindrances to a much larger rollout/adoption of mobile money services are limited awareness and the lack of trust, driven by poor network performance. The interviewees focused their feedback in particular on infrastructure shortcomings, gaps in customer awareness and perception (which are not adequately addressed in the policy or its implementation), and on identifying the right model for service delivery to consumers.

Infrastructure challenges are demotivating and negatively impact trust levels and profitability.

Policies do not adequately address these challenges, which according to supply-side actors, continues to negatively affect consumer uptake. For example, due to the erratic nature of mobile network signals, payments on mobile money platforms often fail and multiple attempts may be needed to execute a transaction. If mobile money is to be used for on-the-spot payments (e.g., paying for a purchase in a shop or for public transport), the customer cannot afford to be dependent on whether or not the payment goes through immediately (a delay or failed service—whilst still annoying—poses a less serious issue when, for example, making transfers to family members that are not immediately time-critical; one can always ‘try later’). Further, mobile network operators still charge for failed transactions and those taking longer than a set period of time. Mobile money operators or customers have to absorb/pay for the costs of these infrastructure issues which poses a value proposition challenge if the failed transaction charge is passed on to the consumer, thereby discouraging usage of mobile money which in turn could affect profits of MMOs.

Trust levels are also impacted by the “cash-based” mind-set and limited awareness/enlightenment.

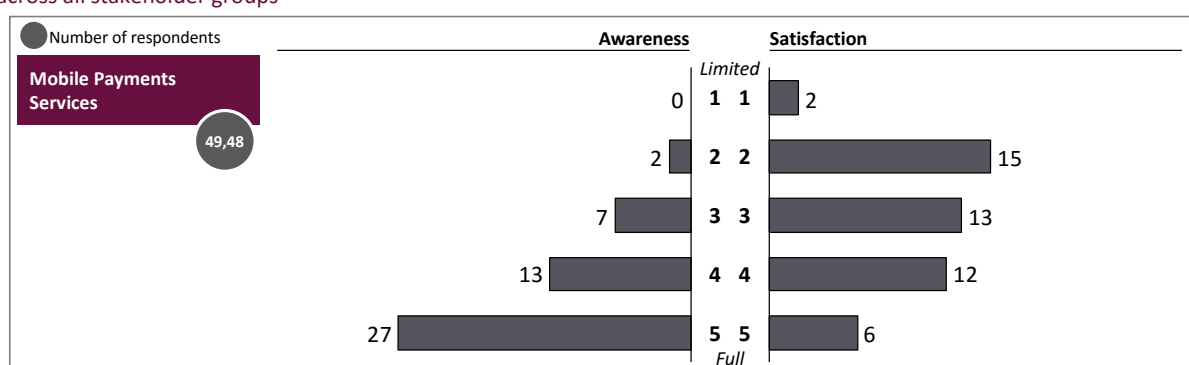
There is a high level of discomfort with the concept of electronic money value which cannot be seen, touched, and “easily” tracked (without having to operate applications with which many people are unfamiliar). There are people (particularly members of the demographic likely to being financially excluded) who do not currently see the phone as a device with utility beyond voice calls and messaging, capable of functioning as a wallet.

“Given the size of our population, everyone (ourselves included) assumed that adoption would be like clockwork. This was never the case as we meet with the hard realities. For the unbanked, mostly low-income earners, who at this time have no access to financial services, there is no real incentive to put this cash into a mobile wallet, only to be charged when they need to make a payment or transfer. Do merchants in this segment also want to be charged? I do not believe the model the CBN has adopted for the rollout of mobile payments in Nigeria is ideal for our society.”

There were also complaints of a **less than optimal mobile agent network** for cash-in and cash-out transactions. This hinders adoption since there are limited avenues for loading the wallet and limited touch points for interaction. These touch points could help field/resolve customer complaints and increase awareness. To a certain degree, the agent shortage is a bit of a chicken-and-egg problem in a period of growing uptake—with insufficient agents, the hurdle to start using mobile money will be higher, yet with limited adoption, the demand for agents is still low. Paradoxically, once uptake is significant, agents may be far less important as people will simply pay from one mobile wallet to another (possibly loading their wallet straight from or onto an internet- or app-managed bank account) without needing the services of an agent.

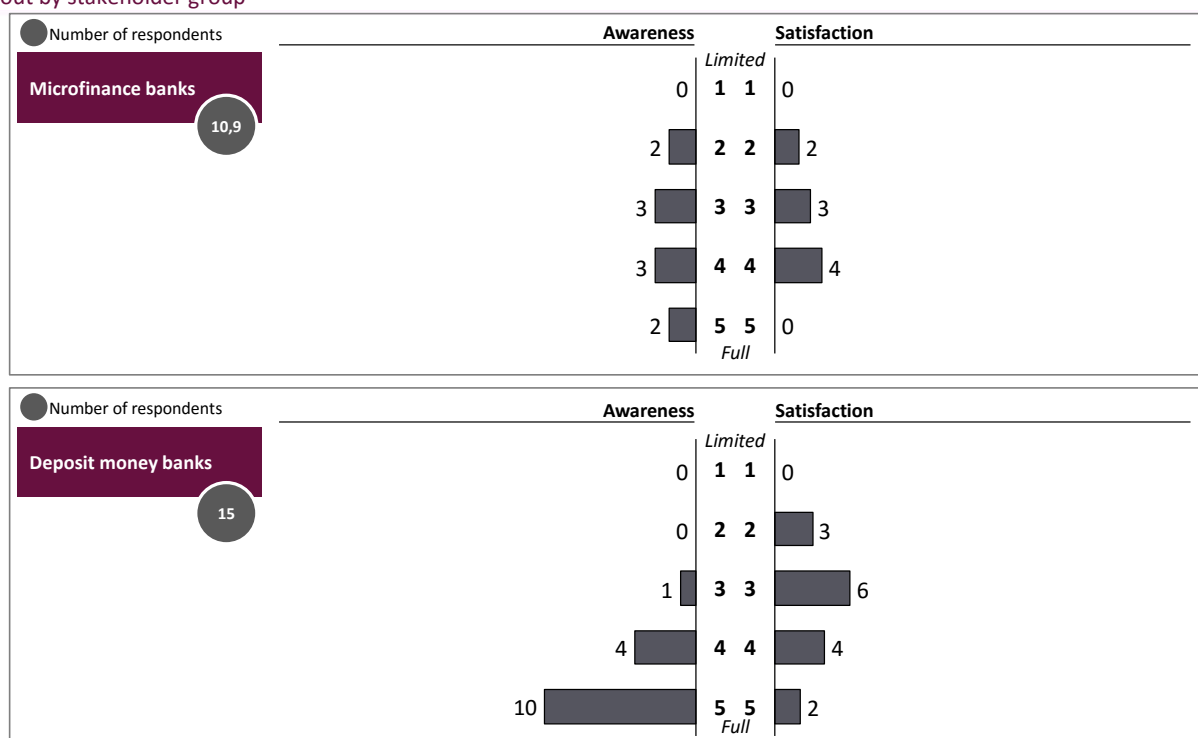
Figure 5 shows the overall scores (across different stakeholder groups) on awareness and satisfaction with the Regulatory Framework for Mobile Payments Services. Worth noting is that one interviewee with a low awareness score declined to rate his/her satisfaction with the policy.

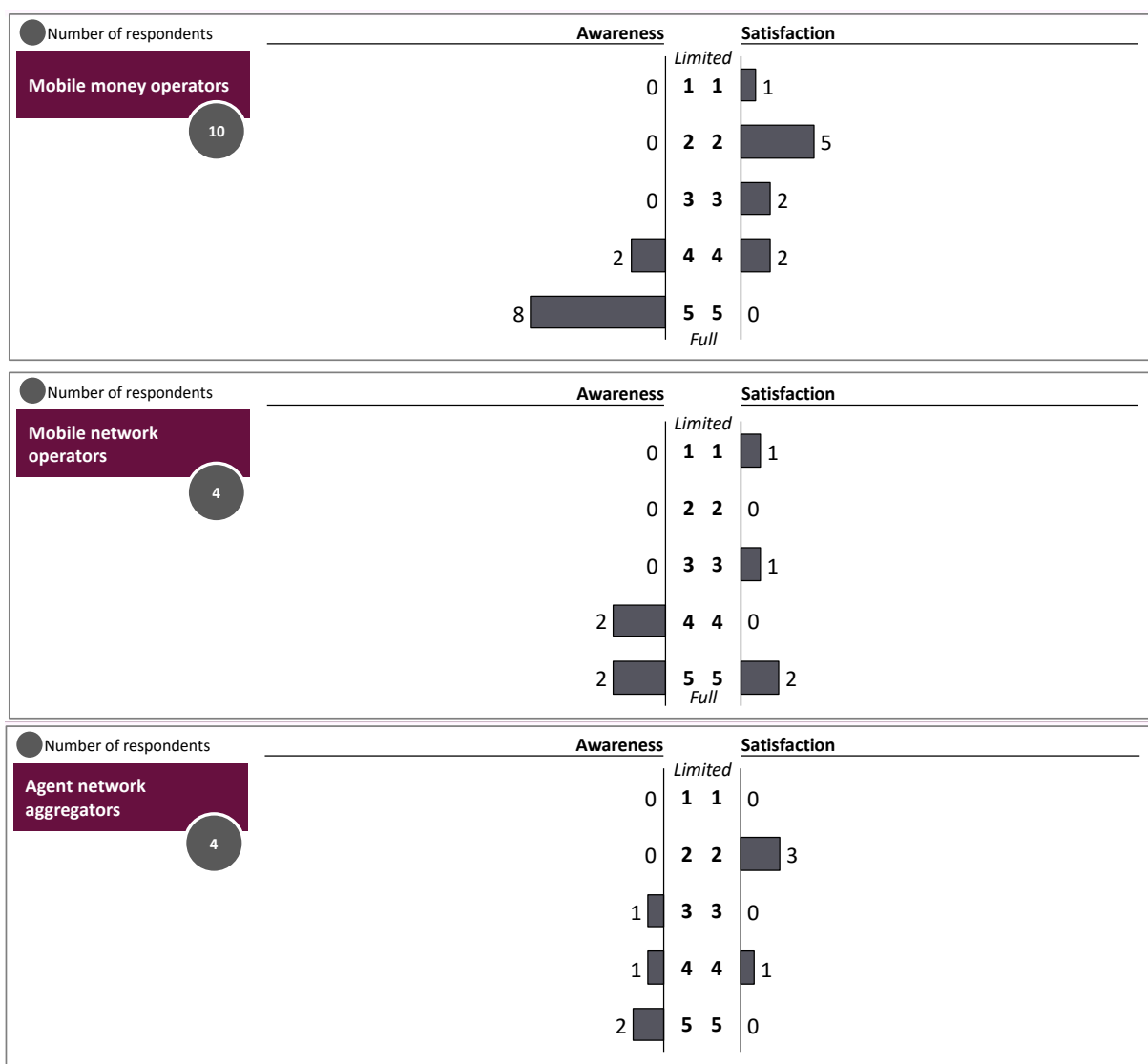
Figure 5: Detailed scoring of awareness of and satisfaction with the Regulatory Framework for Mobile Payment Services across all stakeholder groups



As Figure 6 below shows, stakeholder groups that are more directly focused on or oriented toward mobile money tend to be more aware of policy details, with widely varying satisfaction across and within groups. Mobile network operators and agent network aggregators report being unsatisfied with the mobile payments framework. Later conversations suggest that a new or updated mobile payments framework is being developed in partnership with mobile network operators and a range of actors. Interviewees that attended the CBN-held working sessions in September 2014 reported more positive views of the potential of the mobile payments framework to impact financial inclusion. However, questions remained about whether the proposal for the new and updated mobile payments framework will be enacted and implemented. Detailed scoring by stakeholder groups, below, includes only those stakeholder groups with four or more interviewees.

Figure 6: Detailed scoring of awareness and satisfaction with the Regulatory Framework for Mobile Payment Services, split out by stakeholder group





REVISED MICROFINANCE POLICY FRAMEWORK FOR NIGERIA (2011)¹⁰

We discussed this policy explicitly only with MFBs and industry association interviewees.

POLICY CONTENT

MFB interviewees generally see the Revised Microfinance Policy Framework, which stipulates different capital, training, and reporting requirements, as having a positive effect on the microfinance sector.

Mixed reviews on capital requirements. Most MFB interviewees had a specific view on the suitability of capital requirements in the policy. Those opinions, however, were mixed.

¹⁰ First released in 2005.

Some consider the capital requirements to be too high and a constraint to growth. They consider the requirements for Unit MFBs (see Annex I for a description of the policies, with the Revised Microfinance Policy Framework describing the different types of MFBs), especially in terms of fixed asset investments, to be too high, tying up funds and limiting growth in the sub-sector. Similarly, these stakeholders remark that the State MFBs experience financial constraints when they want to advance to the National MFB level and seek an opportunity to expand regionally first, perhaps with the introduction of a regional license—which has financial requirements that are lower than those required for the national license.

Others feel the capital requirements are too lenient, claiming that this leniency is the cause of massive institutional failures in the sub-sector and the consequent reduction in the level of public trust. Due to the low capital requirements, MFBs easily eroded their capital base with lending and operational expenses. According to this line of thinking, Unit MFB requirements are somewhat inadequate. An MFB opined that the NGN 20 million capital requirement is suitable only for those located in and servicing the rural areas. Similarly, another commented that “the NGN 20 million requirement is not strict enough and would allow the Unit MFBs to exist with shallow pockets.” We heard, as well, a complaint aimed at the requirements for State MFBs, with a suggestion that the capital requirement be not less than NGN 500 million, given that start-up and operational costs are high and the bank needs to remain viable in order to protect the depositors.

“The capital requirement should be increased. NGN 20 million for unit (MFBs) is O.K. but only for rural MFBs – other MFBs need higher capital. Also, the state capital requirement is too small and should be higher—not less than NGN 500 million. Making it higher would allow for consolidation.”

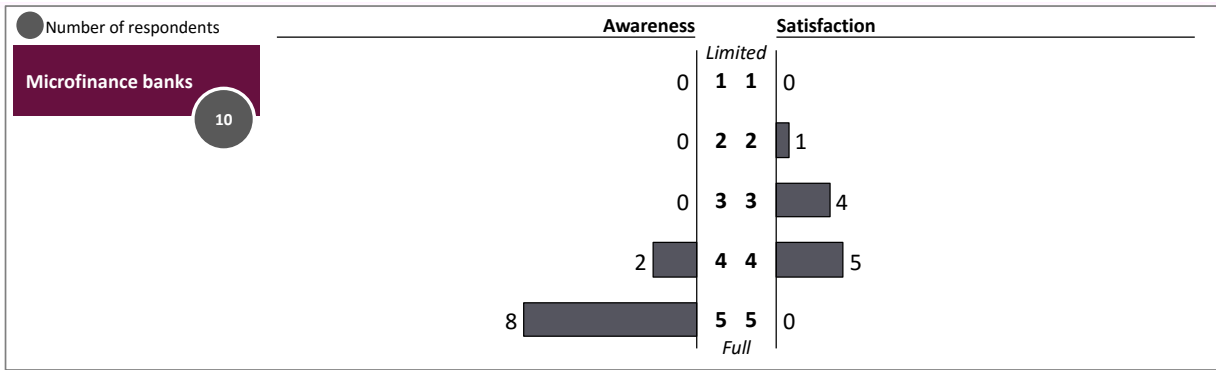
Prudential guidelines for non-performing loans and portfolio at risk are considered to be at odds with the realities of microfinance loans. As is elaborated in the stakeholder-specific section, many MFBs consider elements of the framework as “DMB rules being applied to MFBs” whereas the circumstances ought to call for a different approach. For example, the prudential guidelines for non-performing loans where MFBs are required to make partial provision for the loans as soon as a debtor has missed a single day in repayment. Such precautionary requirements are not felt to adequately reflect the nature of the MFBs’ clientele who often catch up on payments after a short delay and are able to get back on track with their expected repayment schedule. Several MFBs mentioned that their NPL ratios are significantly below what they are forced to make provisions for. Linking a requirement to make provisions to PAR30 (Portfolio at Risk at over 30 days delay in repayments), as is done in a number of other countries, was suggested as a more suitable approach.

A second instance where some MFBs felt the rules for them are based on DMB rules (where they felt DMBs were not the right comparison or reference point), is in the **regulatory requirements for staff capacity and expertise**. A few MFBs (but not all) mentioned the requirement of a specific minimum number of years of experience in banking for certain senior management and board roles, as well as the requirement for certain supportive roles such as auditors. These requirements increase costs, especially for small banks, whilst MFBs question the relevance of mainstream banking experience in a microfinance environment. On the other hand, many are pleased with the new training and certification requirement, believing that it is building more competent managers and, by extension, more effective organisations.

Some of the MFBs interviewed also noted that the **limit of investment in fixed assets is stringent**. The restriction of fixed asset investment to 20% of shareholder funds is considered by smaller MFBs to be too low, especially given the cost of required basic infrastructure for operations.

As is to be expected, MFBs are highly aware of the Revised Microfinance Policy Framework (see Figure 7). They are largely satisfied, with some recommendations focused on capital requirements and regional growth/tiers as detailed above.

Figure 7: Detailed scoring of awareness of and satisfaction with the Revised Microfinance Policy Framework with MFB interviewees



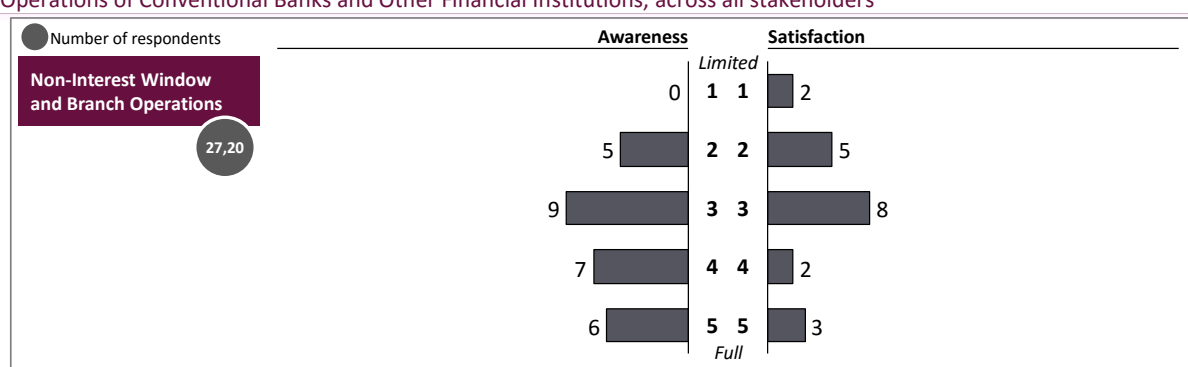
GUIDELINES ON NON-INTEREST WINDOW AND BRANCH OPERATIONS OF CONVENTIONAL BANKS AND OTHER FINANCIAL INSTITUTIONS (2011)

We interviewed DMBs, MFBs, and industry associations about these guidelines.

Financial institutions—DMBs and MFBs—are unclear on the need for or details of the **Guidelines on Non-Interest Window** and Branch Operations of Conventional Banks and Other Financial Institutions. In fact, the non-interest policy had the **lowest average awareness score and greatest variation in satisfaction** with the policy among both DMBs and MFBs.

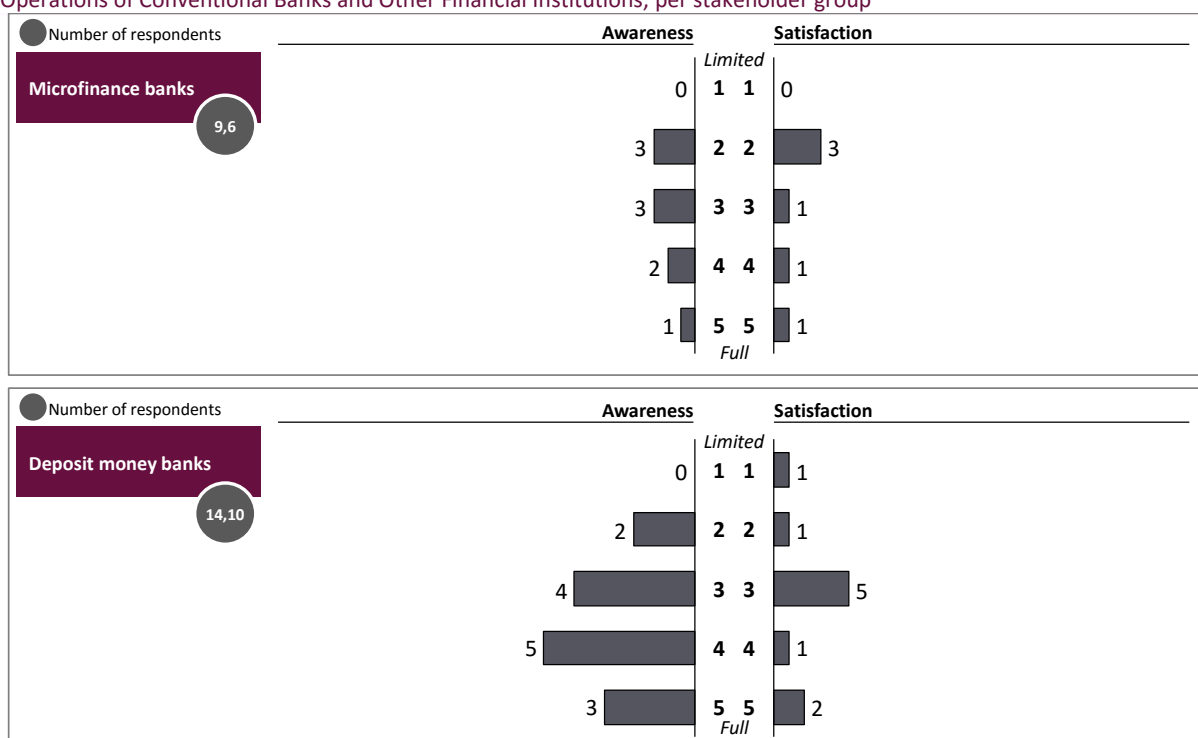
Some interviewees claimed the CBN is not knowledgeable enough about non-interest finance (often referred to as “Islamic finance” by financial services providers, many of whom only understood what we meant if we used that term) to create a relevant policy. Also, they believe that the policy is structured to regulate a bank that is solely focused on non-interest banking, rather than regulating a window among other operations. It would be expensive to operate a non-interest window in the manner the guidelines recommend. It is costly to operate a window that would cater exclusively to this customer segment especially as consumer demand is perceived to be inadequate. The limited market size is also a disincentive for entering the space, partly due to the persistence of the perception—at the level of the banks and consumers, according to interviewees—that non-interest banking is specifically for Muslims.

Figure 8: Detailed scoring of awareness and satisfaction with the Guidelines on Non-Interest Window and Branch Operations of Conventional Banks and Other Financial Institutions, across all stakeholders



The 15 DMBs and 10 MFBs interviewed were not highly aware of the details in the non-interest policy. A number of interviewees declined to rank satisfaction due to the lack of interest in non-interest financial products and services. There was significant variation in responses depending on whether a non-interest window is operational in the institution, its geographic location, or management/institutional interest in pursuing non-interest finance as a competitive strategy. The detailed scoring by stakeholder group in Figure 9 excludes non-bank actors and those relevant stakeholder groups with fewer than four interviewees. Further, a number of interviewees who rated their awareness as low declined to answer the question on satisfaction.

Figure 9: Detailed scoring of awareness and satisfaction with the Guidelines on Non-Interest Window and Branch Operations of Conventional Banks and Other Financial Institutions, per stakeholder group



CASH-LESS POLICY (2012)/GUIDELINES OF POS AND CARD ACCEPTANCE SERVICES (2011)

We discussed this policy with all interviewees, with the exception of mobile network operators.

POLICY CONTENT

When providing suggestions and criticism on the Cash-less Policy/Guidelines of POS and Card Acceptance Services, interviewees spoke mostly about challenges in implementation—not deficiencies in the policy itself, with the exception of the level of the fee charged for POS transactions.

There were almost unanimous **complaints about the 1.25% fees charged merchants per POS transaction**. Levying the same charge across board was considered by some to be inconsiderate of the uniqueness existing in different business models with varying cost structures. In some instances, a 1.25% fee is adequate to wipe out sale margins on products or service offerings. There were recommendations around a tiered fee that would be more accommodative of smaller businesses with smaller margins or whose daily sales revenue will be greatly reduced by a 1.25% fee.

IMPLEMENTATION

There are mixed reviews on the staggered rollout of the policy. Some interviewees, across all categories, claimed that the delay reduced the momentum of adoption, particularly as it hampered customers who wanted to do cash-less business in/transfer money across multiple states. Though in the minority, others claimed the gradual rollout was a good move. Regardless of whether one judges this to be a good strategy or not, the gradual rollout undeniably provided a loophole for banks to engage in borderline practices in order to avoid the charges levied on cash handling under the policy. Cash deposits made in states where the Cash-less Policy was already in effect were recorded as originating in branches located in states where the policy had yet to take effect—and hence were not subject to the new charges. Some customers simply crossed state lines to transact cash in order to avoid penalties.

Non-bank interviewees—telcos, agent network aggregators, and mobile money operators—decry the CBN's over-promotion of the use of ATMs and POS terminals as part of the cash-less drive. ATMs were not seen to drive financial inclusion in Nigeria—and are not being frequently used for bill payments or airtime purchase. Additionally, the use of POS terminals is riddled with infrastructural challenges beyond the regulators' purview. Too much focus on these channels has equated "cash-less" with ATMs and POS terminals in the public opinion, at the expense of mechanisms such as mobile money and wire transfers that are quintessentially cash-less.

Figure 10. Sample of print advertisements published by CBN in September 2013 for the Cash-less policy



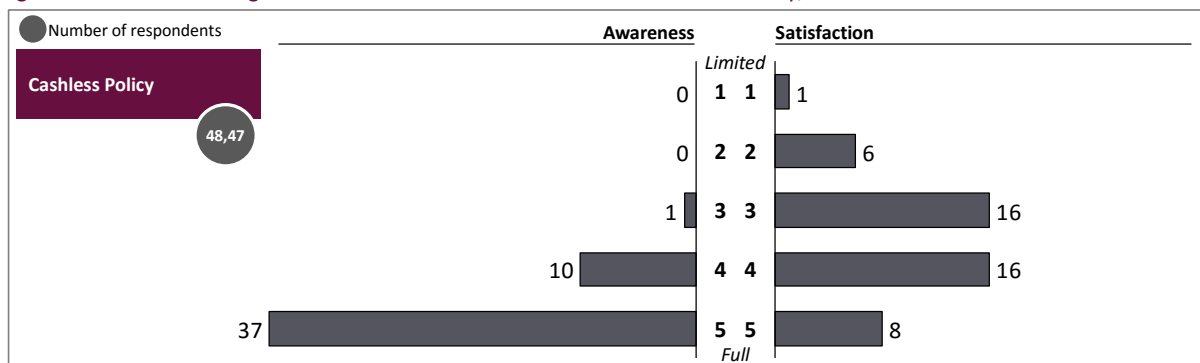
As with the mobile payments framework, **literacy levels and mind-set also constitute a hurdle to the adoption of electronic payment channels.** This is largely an awareness issue. The level of cash reliance will remain high until the mind-set issue is addressed and electronic payment channels are perceived to be more reliable. The average Nigerian prefers handling cash physically to transacting over electronic channels. Banks have reported instances where they have offered to help customers transfer huge amounts of money via electronic channels and yet customers have opted to cash-out and make transactions over the counter.

“We offered to deposit the cheque for millions of Naira into his bank account but he preferred to cash the cheque and queue, in the same banking hall, to make a cash deposit into his account”

These consumer adoption issues are not helped by infrastructural challenges. For instance, some customers have attempted to make payments using POS terminals only to have their accounts debited when the merchant has not received the value. The burden of resolving the

issue then rests on the customer. The bank may eventually reverse the transaction but this is not immediate and it could be particularly difficult for some customers to experience that temporary loss of funds. In order to remedy this, some interviewees recommended supporting legislation from the telecommunications regulator that would necessitate improved service standards and provide for timely recourse and adequate compensation where necessary.

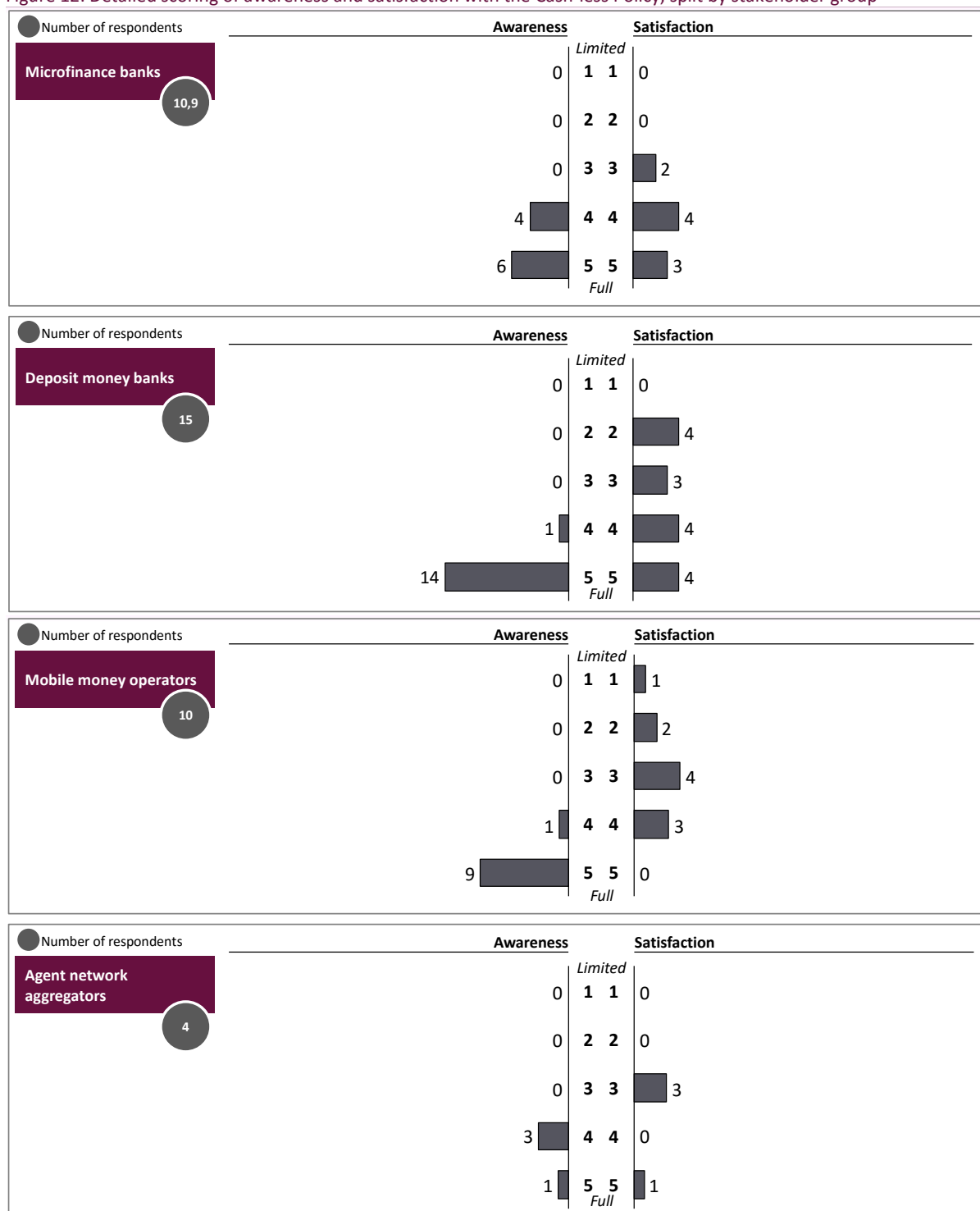
Figure 11: Detailed scoring of awareness and satisfaction with the Cash-less Policy, across all stakeholders



The Cash-less Policy rated the highest across all policies and stakeholder groups on the level of awareness of the policy and its details (see Figure 11; note: it is possible that dissemination efforts

and the ongoing updates to the policy have had an externality of increasing financial institutions' awareness of the policy). However, satisfaction ratings were split across interviewees no matter which stakeholder group is analysed. In addition, mobile money operators are generally unsatisfied with the policy, in part due to concerns about the focus on POS terminals, ATMs, and channels not linked to mobile phones. The detailed ratings included by stakeholder group in Figure 12 exclude those groups represented by fewer than four interviewees.

Figure 12: Detailed scoring of awareness and satisfaction with the Cash-less Policy, split by stakeholder group



NATIONAL FINANCIAL LITERACY FRAMEWORK (2012)

We discussed this framework with DMBs, MFBs, and industry associations.

POLICY CONTENT

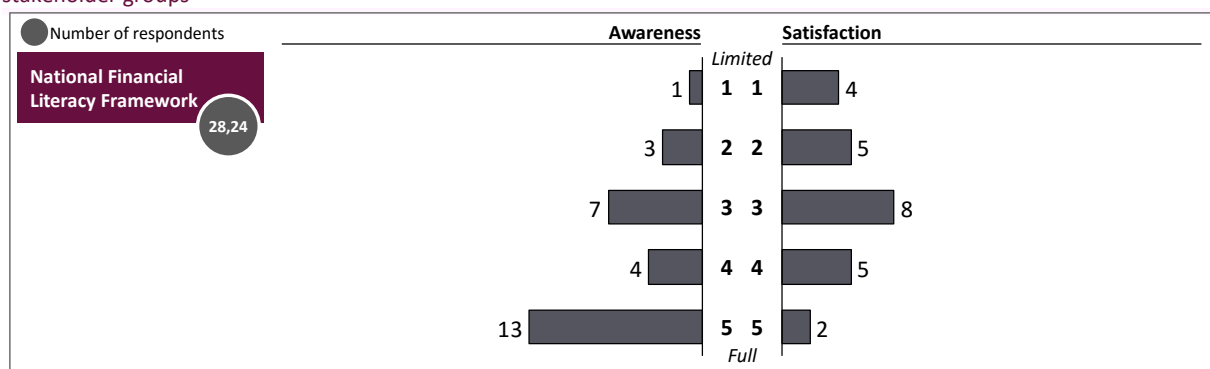
The National Financial Literacy Framework may be misguided. The real need for financial literacy is in the rural areas and mass markets but interviewees viewed the framework as elitist in its intentions, targeting a demographic that is likely well on its way to being included in the financial sector. Also, interviewees mentioned concerns about the lack of clear owners and funders of the framework, raising questions about the role of financial services providers as teachers or financiers of financial literacy programs, and the role of the Ministry of Education at the federal and state levels.

IMPLEMENTATION

The general consensus is that financial literacy needs to be “taken to the streets.” The banks that we interviewed had differing opinions on the role that they themselves should play in financial education. Some are heavily involved as a core activity, driving their brand awareness and ‘growing the pie’ which allows them to grow their business, while others do it from the perspective of Corporate Social Responsibility (CSR), and yet others are hardly involved and see the promotion of financial literacy as more of a public good role to be spearheaded by the Government of Nigeria.

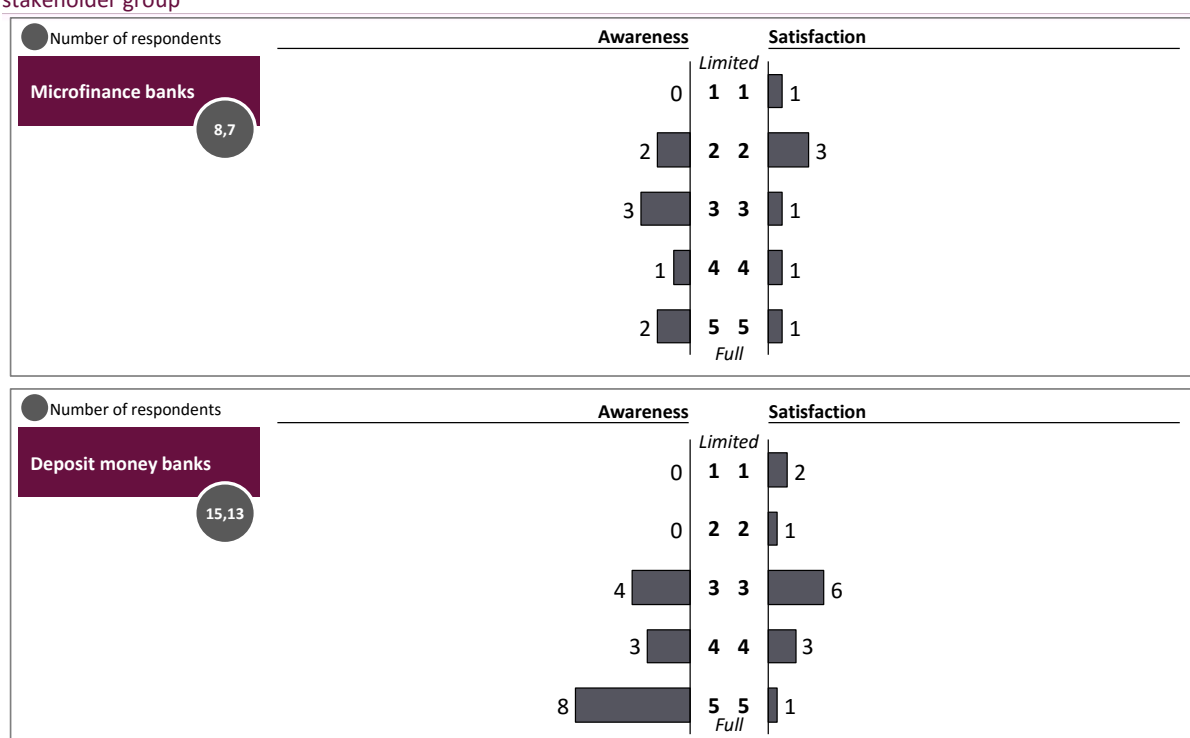
“Banks [microfinance and deposit money] cannot be expected to provide financial literacy training to the entire Nigerian population. It is too costly and ineffective. Why is there not a dedicated fund for literacy? Why can’t we use a part of our education tax contributions to fund financial literacy?”

Figure 13: Detailed scoring of awareness and satisfaction with the National Financial Literacy Framework, across all stakeholder groups



The majority of interviewees were aware or highly aware of the policy and its details (see Figure 13). However, awareness varied significantly between the deposit money banks and microfinance banks, with generally low satisfaction driven by questions on implementation and ownership. Deposit money banks reported undertaking joint CBN and bank awareness events and road shows, as well as adopting schools to teach financial literacy. On the other hand, microfinance banks reported self-led initiatives via radio, print, and other channels to increase financial literacy. Across both groups, interviewees commented on the lack of funding or incentives for wide-scale financial literacy efforts. Figure 14 provides further detail on the breakdown of interviewee awareness and satisfaction by stakeholder group. We excluded stakeholder groups with fewer than four interviewees from the stakeholder group specific analysis.

Figure 14: Detailed scoring of awareness and satisfaction with the National Financial Literacy Framework, split by stakeholder group



NATIONAL FINANCIAL INCLUSION STRATEGY (2012)

Although we explicitly discussed this policy with all interviewees, most did not provide quantitative ratings.

To the extent that interviewees had an opinion (and only a limited number did), their views on the National Financial Inclusion Strategy could not be more mixed, and clearly reflected the underlying strategic focus of the interviewees.

By and large, interviewees seemed to align on the point that while the Strategy in theory is good (ranging from “not bad” to “brilliant”), the implementation leaves much to be desired. A somewhat common theme is the lack of rural focus and the lack of focus on necessary enabling elements, in particular infrastructure (this does border on criticism of the Strategy itself rather than implementation alone). Interviewees also raised questions about the ability of the Central Bank to champion financial inclusion alongside its partner agencies and ministries, suggesting, in particular, that a Financial Inclusion Committee may be required to support policy development and implementation. Interviewees suggested that while the National Financial Inclusion Strategy provides an overarching framework, each of the related financial inclusion strategies taken on its own is not enough to lead to the goals and targets outlined in the Strategy. There is more work (both in policymaking and coordination) to be done before the strategy can be fully implemented.

Interviewees had divergent views about what was missing from the National Financial Inclusion Strategy and how they used the strategy in their own organisation. Opinions ranged from “the strategy has been a helpful structure/umbrella to drive our own strategy and implementation” to “it is a costly endeavour for the private sector; there is a need for concessions/incentives for rollout” to “regulation is stifling growth.” These views demonstrate the gamut of stakeholder perspectives,

from those who were eager to make financial inclusion the cornerstone of their strategy and business model and who saw this Strategy as helpful, to those who did not focus on unbanked and under-banked clients and felt forced to stray from their strategic focus due to the Strategy. Not surprisingly, a suggestion from one of the ‘greatest supporters’ of the Strategy was to force DMBs to dedicate a portion of their capital/investment to rural areas. Conversely, the greatest cynics pleaded for more incentives but in the context of less regulation.

However, these differing views also speak to the lack of awareness of the specific contents of the National Financial Inclusion Strategy. Interviewees were generally unable or unwilling to rate levels of satisfaction given their level of knowledge of the strategy. Quite a few interviewees treated questions around this Strategy as an opportunity to share their thoughts on financial inclusion more broadly and in light of their organisation’s focus and chose not to score the Strategy itself.

TIERED KYC REGIME (2013)

We discussed this policy with all stakeholder types that directly face end customers (DMBs, MFBs, MMOs, MNOs, and industry associations).

POLICY CONTENT

Tiered KYC is indeed beneficial to the financial inclusion agenda but it features several unnecessary and cumbersome elements. Banks—DMBs and MFBs—recognise the window of opportunity presented by the revised KYC requirement. The reduced KYC requirements for the first and second tiers allow the banks to cater to a demographic that was previously excluded. Stakeholders also call for a revision of the requirements for Tier 2, which currently seems irrelevant. It is unclear what “requirement of verification of I.D. cards with the original issuer” means; for most banks, meeting this requirement ends up being as much effort as securing the paperwork for Tier 3. For these reasons, the Tier 2 is usually skipped and only lightly populated as banks would rather migrate customers from the Tier 1 directly to Tier 3.

“We try to avoid Tier 2 given the burden of conducting independent verification of the ID cards. Instead, we focus primarily on Tier 1 and Tier 3, transitioning customers to Tier 3 when they are interested in or able to make higher volume transactions.”

The second biggest comment on tiered KYC, centres on the daily and per-transaction limits. Some interviewees felt these limits are completely adequate given the lower registration requirements and thus slightly higher risk. Others stated that these limits restrain certain professional groups such as cattle traders who may have the same low level of (in)formality and degree of registration of their business as other Tier 1 customers, but due to the nature of their business often have transactions that go beyond the limit for Tier 1. MFBs and MMOs, in particular, mentioned the challenge posed by transaction limits. However, the concern wasn’t unanimous; while some MFBs cited the incompatibility of transaction limits with the businesses of their clients, other MFBs found the limits completely adequate and acceptable.

IMPLEMENTATION

Interviewees raised no specific challenges around implementation. As Figure 15 illustrates, interviewees reported very high awareness of the new tiered KYC regime and requirements, as well as high satisfaction compared to other policies, with the key recommendations surrounding Tier 2

and per-transaction and daily limits. Mobile money operators as a category have lower satisfaction scores, primarily driven by concerns about per-transaction limits and inability to graduate customers to higher limits without meeting strict identification requirements.

Figure 15 and Figure 16 provide further detail on the ratings overall and by stakeholder groups. Stakeholder groups with fewer than four interviewees are excluded from the stakeholder group analysis.

Figure 15: Detailed scoring of awareness and satisfaction with KYC, across stakeholder groups

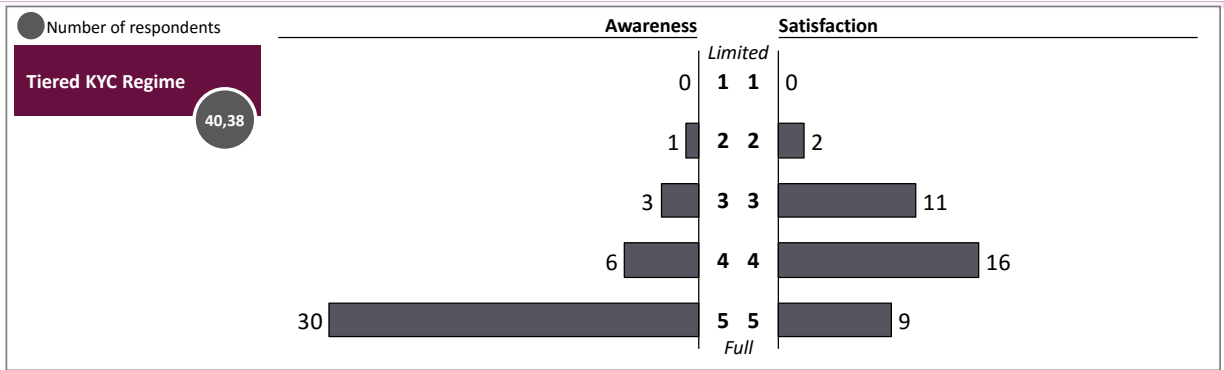
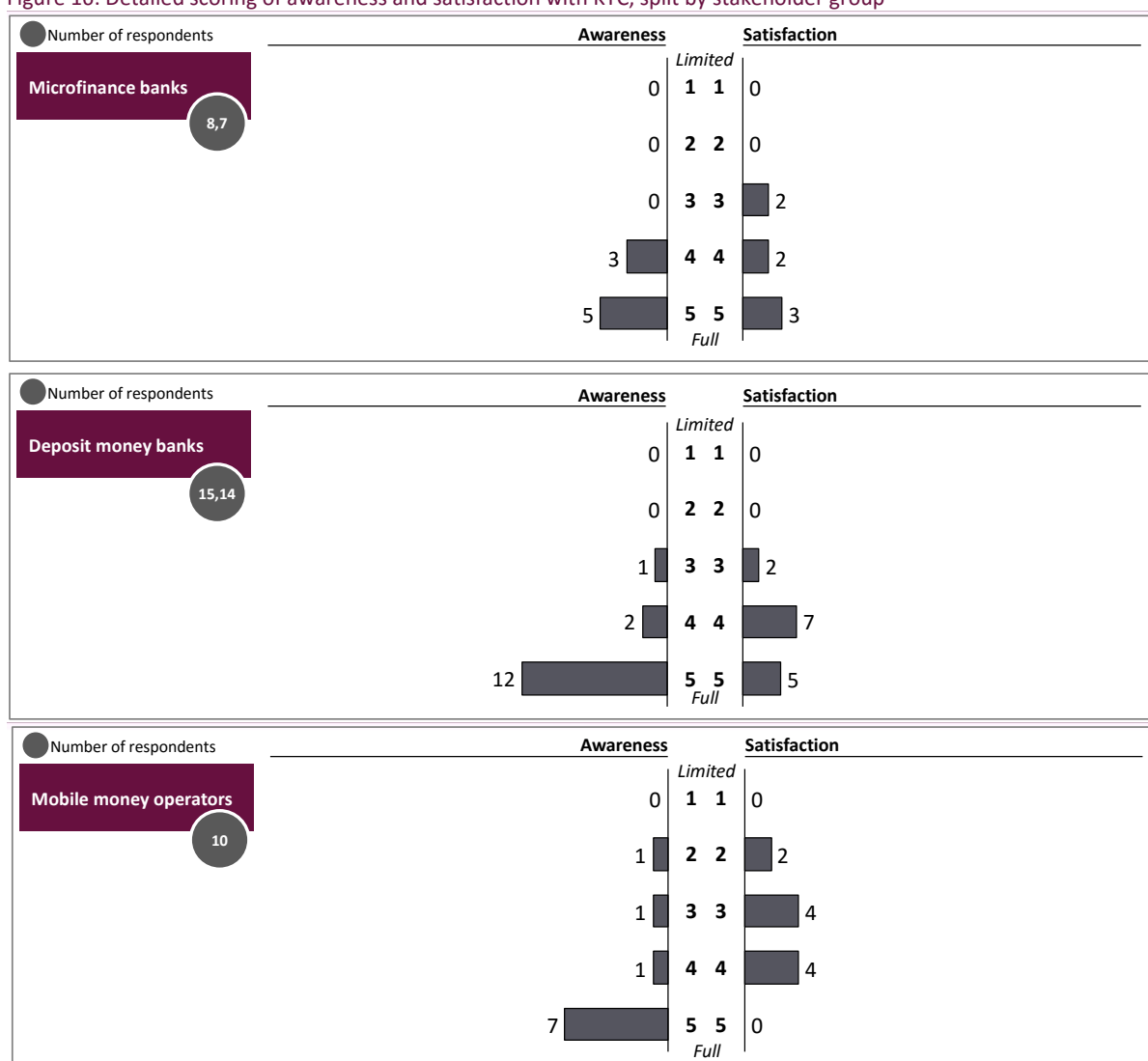


Figure 16: Detailed scoring of awareness and satisfaction with KYC, split by stakeholder group



GUIDELINES FOR THE REGULATION OF AGENT BANKING AND AGENT BANKING RELATIONS (2013)

We discussed this guideline with all stakeholder types except the card issuance companies.

POLICY CONTENT

Levels of satisfaction with the guidelines varied. Interviewees consistently flagged issues around agents' non-exclusivity, agents' registration requirements and agents' high turnover rate. Depending on their exact role in the ecosystem and related interests, interviewees interpreted the issues differently and looked for different solutions. For example, DMBs seeking to build a strong rural agent network were more likely to view the registration requirements as limitations than banks driving more toward a convenient, large presence (but less complete coverage) through retail chains and petrol stations.

Without clear recommendations around compensation, the non-exclusivity requirement does not favour first movers who have incurred the initial investment cost and then have to share the benefits with others. Some interviewees thought the clause could encourage anti-competitive practices, with agents receiving incentives from principals who intend to promote their own

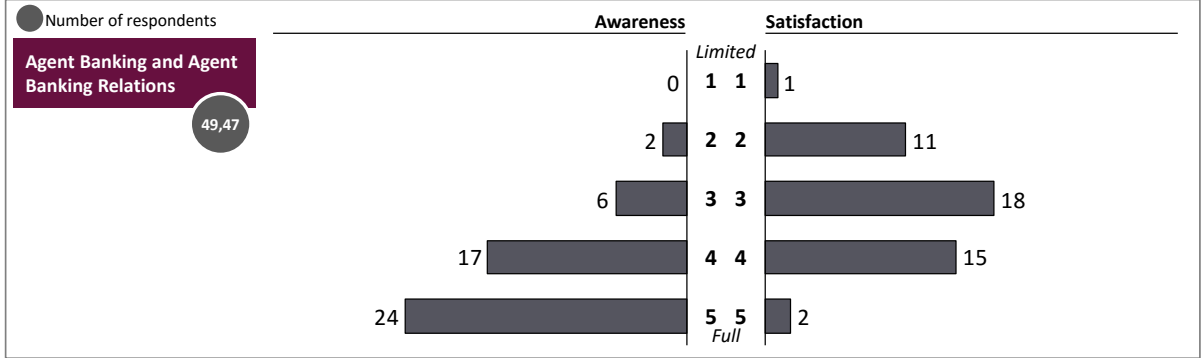
platform/product over others whom the agent is supposed to promote equally, since their services are meant to be non-exclusive. Other interviewees thought the non-exclusivity clause is what will indeed facilitate inclusion through the agent banking platform, in that empowering all agents to service customers universally effectively increases customer proximity to service centres.

However, the economics need to make sense to the agents. **There is currently a very high agent turnover.** The major reason is inadequate financial incentives—agent banking is not very lucrative for the agents and they therefore quickly become dormant. This poses a huge challenge to the ANAs who sometimes go to great lengths to recruit and train the agents, usually at their own expense. An ANA reported recording his largest intake of agents when a certain telco announced a mobile money initiative. The reason for the high level of interest was this telco’s historical reputation of paying generous account opening commissions. On field visits and consultation with agents who had become dormant by the ANA, some of the agents clearly stated that they were waiting for the telco in question to re-launch its initiative before becoming active again.

Some of the deposit money banks interviewed struggled to sign on agents because of security issues. For example, some banks tried to get petrol stations to become agents or to house agents, but the prospect of significant amounts of cash on site made them wary of the security risk and threat of robbery.

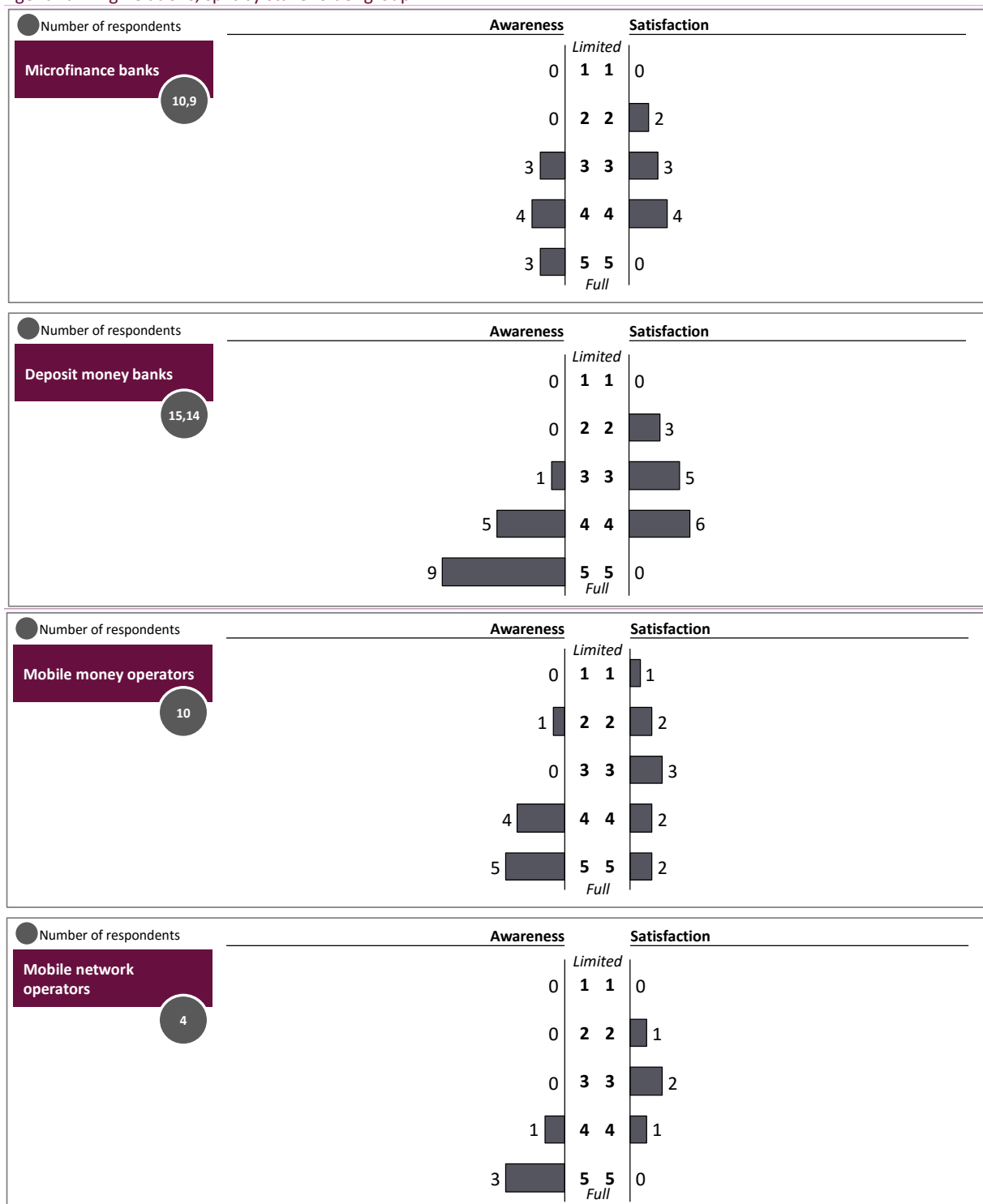
Interviewees offered a limited number of comments on the implementation of the policy, claiming that it was too early to make accurate deductions about the policy’s impact.

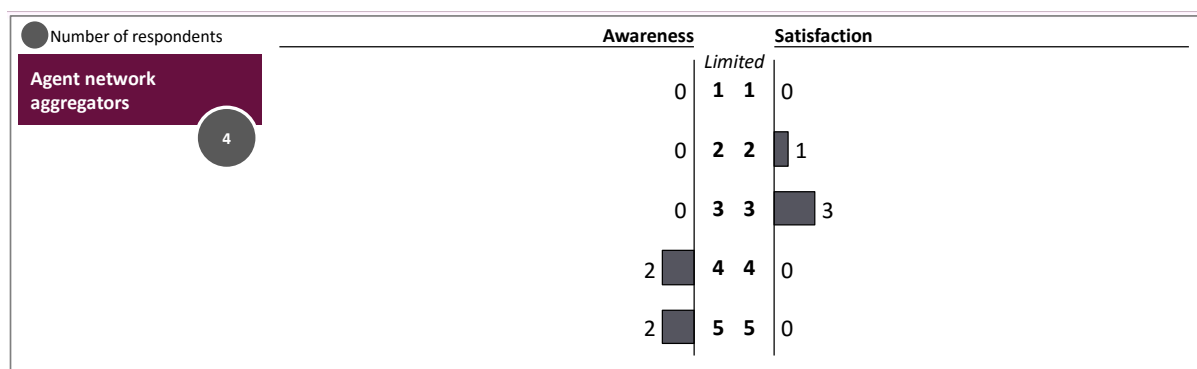
Figure 57: Detailed scoring of awareness and satisfaction with the Guidelines for the Regulation of Agent Banking and Agent Banking Relations, across all stakeholder groups



Relatively high awareness is consistent across stakeholder groups (see Figure 17). All stakeholders—including within stakeholder groups—are split on the level of satisfaction with the policy. Figure 18 includes per stakeholder group ratings only for those groups with greater than four interviewees.

Figure 18: Detailed scoring of awareness and satisfaction with the Guidelines for the Regulation of Agent Banking and Agent Banking Relations, split by stakeholder group





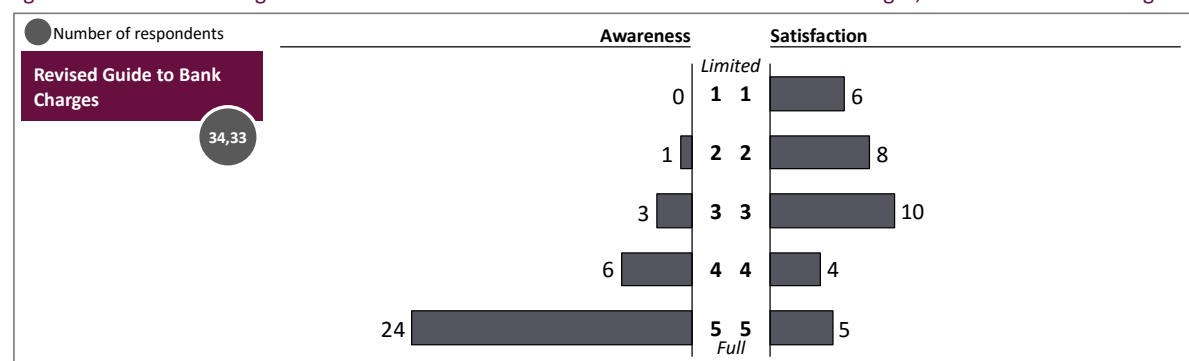
REVISED GUIDE TO BANK CHARGES (2013)

We discussed this policy with DMBs, MFBs, the switch, card issuance companies, and industry associations.

The revised guide to the bank charges is likely the most hotly contested policy among those we studied. Most DMBs dislike the guide, either because it is too rigid or the limits are too low, thereby limiting their revenue opportunities, or both. MFBs were less set in their judgment of the guide, mainly because a far smaller subset of their products and services is governed by these charges. While set pricing clearly drives discontent, it does not directly hamper financial inclusion more than it hampers serving any other customer as long as the pricing is uniform. However, financial inclusion could benefit from a less rigid pricing structure. Some banks suggested that a ceiling to avoid exploitation but no minimum charge, would allow banks to compete on an offering that is more responsive to customer needs. This can lead to bundles/packages that are more attractive to banks and customers alike.

In addition, some interviewees claimed that the frequent revision of policies around bank charges on cash withdrawals, deposits, and ATM withdrawals implies that the CBN was not thorough in its considerations before developing these policies.

Figure 19: Detailed scoring of awareness and satisfaction with Revised Guide to Bank Charges, across all stakeholder groups



Looking at the relatively high awareness reported for the Revised Guide to Bank Charges policy (see Figure 19), the deposit money banks reported higher awareness levels on average than microfinance banks. In addition, DMBs are generally unsatisfied with but highly aware of the policy, whereas MFBs are less aware and relatively satisfied, as the charges do not all affect their core product and service offering. Figure 20 includes detail on the ratings by stakeholder groups. Only those relevant

stakeholder groups asked about the policy and with more than four interviewees are included in the stakeholder group analysis.

Figure 20: Detailed scoring of awareness and satisfaction with Revised Guide to Bank Charges, split by stakeholder group



FINDINGS PER STAKEHOLDER GROUP

The previous section described findings per policy, which are a reflection of a summation across all the stakeholder groups. While the members of different stakeholder groups did differ in opinion within each group, there was more variation in responses between the different groups. For example, mobile money operators responded similarly to each other on awareness and satisfaction on most policies with a small amount of variation as compared to the responses of deposit money banks.

These differences within a particular stakeholder group were strongly driven by the role that each stakeholder plays and by that stakeholder's strategies and objectives concerning financial inclusion. As is to be expected, MMOs had a strong point of view on the cashless and mobile money policies, more so than, for example, on the National Financial Inclusion Strategy.

Some differences across the stakeholder groups reflected differences in strategic approach. The DMBs, by virtue of their business model and cost structure, will need to rely heavily on electronic channels to expand access to finance and acquire more customers. Their comments therefore focused strongly on the Cashless Policy and the mobile money strategy. On the other hand, MFBs have traditionally employed a model which relies more on personal contact, with alternative channels being supportive rather than core. MFB interviewees consequently focused more on the KYC, but most importantly on the microfinance policy framework. Many MFBs felt the microfinance regulations too closely mirror DMB regulations (particularly in the case of loan provision requirements, which do not match the typical patterns for repayment that most early default MFB

clients show). In the process of developing policies, the interviewed MFBs generally felt they did not have as prominent a place at the table, making it hard for them to change any of these policy constraints.

The interviews highlighted the existence of interesting niche players that capture specific segments, such as one of the MFBs that focuses exclusively on offering non-collateralised (but insured) loans to earners of fixed, relatively low incomes in a completely cashless setting. This MFB understandably had a keen interest in the potential for cashless/mobile/agency banking to foster growth.

DEPOSIT MONEY BANKS

STRATEGIC FOCUS

The degree to which DMBs focus on the unbanked and under-banked segments of the population (largely BoP and SME), varies substantially. One stakeholder reported that over 75% of its 1.5 million customers were mass market, whereas another stakeholder stated that it had nearly 1 million BoP accounts, accounting for less than 20% of its accounts. Across interviewees and stakeholder groups, definitions of the unbanked and under-banked, BoP, poor, Tier 1 KYC customers, and mass market were at times used interchangeably. There is no clear definition, from the perspective of the DMBs, of the direct impact on financial inclusion (as measured by customer numbers), with the exception of those DMBs that specifically target excluded, unbanked, or under-banked populations.

Prior to the recapitalisation and consolidation in 2004-2005, most DMBs focused on corporate clients and on mid-level and high-end retail. Providing financial services to the unbanked and under-banked was largely considered to be commercially unattractive, as it required a bank to incur relatively high “transaction costs” in the broadest sense of the term—costs to reach the customers, educate them, register and vet them etc., for usually relatively low amounts per account. On top of that, serving these customers requires the bank to build separate capabilities, channels, products, and services. Conversely, customers incur account maintenance costs which are likely high compared to their account balance, making it difficult to market services to these segments while also recouping costs.

In the new banking landscape after the significant restructuring of 2009, banks took a varied strategic position. Driven by the CBN’s changing minimum capital requirements and consequent recapitalisation in 2004-5 and restructuring in 2009, almost all DMBs now explicitly mobilise deposits in the BoP/SME segment as an affordable source of capital.¹¹ In addition, some DMBs focus explicitly on this segment, developing or even already offering a broader suite of products and services, including loans (including unsecured loans) and different saving products, and tailoring marketing and outreach efforts to effectively on-board these segments. However, only a few interviewees mentioned a specific strategy for financial inclusion within the organisation as part of the core business. These more financial inclusion-focused institutions recognise this segment as an untapped

¹¹ Of note, mass market—while used interchangeably with BoP—was defined by one interviewee as those customers earning NGN 50,000 or less per month (approximately USD 14 per working day).

and potentially profitable market if approached well. Other banks have chosen a strategic focus that does not centre on these customer groups and instead is limited to deposit mobilisation.

The deposit mobilisation has really taken off—several banks employ outreach staff who, for example, visit local markets to enable stallholders and salespeople to easily deposit their money at the end of the day. As will be discussed later on in the report, this is a clear example of a situation where policies have created the first incentive (with capitalisation requirements) and the enabling environment (e.g., with tiered KYC), but the market adopts the initiative because it aligns with the interest of the bank.

KEY DRIVERS FOR FINANCIAL INCLUSION

In synthesis, all DMBs explicitly target the unbanked and under-banked, whether for deposits only or for a broader suite of services. In addition, all DMBs suggested having a financial inclusion strategy, although the centrality of the strategy to the overall business varied. Without exception, they recognise that the new tiered KYC regime has enabled this through simplified/reduced KYC requirements, affording DMBs the opportunity to now engage customers they previously could not. Similarly, the CBN recapitalisation requirements have created a clear need for lower cost and diversified funds, which creates the incentive for the banks to focus on the BoP/SME segment.

Given their business model and approach, DMBs will need to rely on branchless models to expand their customer reach (geographically and across income categories) in a cost-effective way. Most DMBs interviewed were excited about the potential that agent banking offers, although opinions varied about the added value of non-exclusive agents in these early stages. Internet-based, mobile, and card-driven banking are all very important channels for DMBs, but they did see significant challenges in uptake, which in turn threaten the viability of agent banking. DMBs interviewed were incorporating these channels within their organisation structures in a range of ways, including staffing teams in retail or mass market banking and creating an electronic channels department.

FURTHER BARRIERS TO FINANCIAL INCLUSION AND IMPLICATIONS FOR POLICIES

Those DMBs that choose to focus more strategically and holistically on the unbanked and under-banked segments recognised three main barriers to furthering financial inclusion:

Limited uptake of agent and electronic banking

Looking at some metrics, one could conclude that electronic banking has taken flight in Nigeria: over 25 million cards have been issued (an over 300% increase since 2010)¹², over 100,000 POS terminals were issued within six months following the Cash-less policy's release, the number of POS terminals

"We were looking to expand outside of urban areas, and started entering partnerships with [ANAs] in order to do so. However, we don't want to take too much risk—we're dealing with money. So the agent has to have some capacity and be able to drive the business. I would prefer identifying [ANAs] who have a large network rather than me having to talk to many smaller [ANAs] or recruit agents."

in use has grown substantially, and mobile money operators report a continuous growth. Most interviewees, however, stressed that this electronic banking growth fails to fully penetrate the retail space. Most individuals still rely

heavily on cash for their daily transactions. If they use mobile money, they usually deploy it very specifically for one transaction and upload the amount needed to pay for that transaction, rather than using the mobile wallet as their default payment method. Similarly, card usage is highest for ATM withdrawals and those using cards for payments invariably carry cash in case the card payment method does not work. In addition, DMBs would prefer to engage agent network aggregators with deep and broad networks of agents. Interviewees felt that this type of agent network aggregator was not readily available in the market beyond chains of retail stores, e.g., petrol stations.

This low uptake is problematic for financial inclusion for the following reasons, according to interviewees:

- It leads to a constant high level of outreach costs and “transaction costs” in the broadest sense;
- It increases cash and liquidity management challenges when agent banking is further rolled out; and
- It sustains potential for crime and corruption.

DMBs recognised two major factors driving this low uptake:

- **Infrastructural challenges:** The quality of Nigeria’s telecommunication infrastructure is less than optimal and this greatly impacts the quality of service on the electronic payments channels which largely depend on GSM networks. Electronic payments (either card or mobile money) are often interrupted or not completed at all due to connectivity issues or confirmation messages that are not sent/received. As a result, people continue to rely heavily on cash.
- **Trust and financial education:** The distrust and limited awareness of the functionality of the electronic payment channels are a major hurdle to adoption. Some of this is a self-reinforcing mechanism: because people do not understand/trust the options, they do not use them and without practical experience and exposure, they will not get to know and trust them. Such changes in perception may simply require more time for people to familiarise themselves with how electronic banking alternatives work.

Several banks mentioned a variety of different levers that can be used in either policy definition, policy coherence, implementation, or government role, modelling behaviour to overcome these issues:

- **Policy definition:** There is a need for the telecommunications regulator (the Nigerian Communications Commission) to create policies that promote a minimum quality standard that would bring about an improvement in successes per trial on electronic payment platforms.
- **Policy coherence:** Many interviewees thought that the revision of charges on cash handling for withdrawals and deposits opposed the principle of the Cashless Policy. The recent removal of charges on cash deposits exceeding stipulated limits encourages people to ‘stay with cash.’ Merchants will also be more eager to receive cash instead of electronic payment, since they will no longer be charged for making significant cash deposits at the banks.

- Policy implementation: Here, a few themes emerge which combine policy definition and implementation:
 - The chosen path—that is, starting with regional implementation—may hamper uptake. Some customers may want to do business or simply make transfers/payments across multiple states, which is not possible if one state is further behind in the rollout, whether due to a lack of awareness or a lack of infrastructure necessary for these transactions.
 - There is a need for a concerted effort in fostering a mind-set change and broadening financial education to drive understanding. Banks point out that this would also need to focus on more channels in addition to ATMs and POS terminals and include mobile money, internet, etc.
 - The policies need to have a certain consistency over time. With the frequent changes of the bank charges for cash deposits and withdrawals, there's no incentive that is consistent over time for the market. DMBs saw a very clear return to cash transactions when the penalty charges were removed/reduced, indicating a reversal of the earlier trend towards a bigger uptake of electronic banking. They recognise not all of their customers liked this push-by-tariffs approach, but such policy changes could help them convert more customers.
- Government behaviour: The government and parastatals are not only large employers but also spend significant amounts buying goods and services. If governments used mobile money and other electronic means to disburse their money, it would give citizens automatic exposure to new channels. For example, cash transfers, pension payments, salary payments, and other government payments could be digitised via mobile wallets or online banking. This could start to give people an experience that is different from “loading some cash into the wallet for an immediate payment,” encouraging them instead to use a mobile wallet as the standard place to keep money and conduct transactions.

Complex administrative requirements

DMBs are pleased with the opportunity presented by the new Tiered KYC Regime, but there's scope to further simplify. The account opening forms can be simplified further, with one bank believing solely name and address to be adequate information requirements at the lower levels. None of the DMBs saw clear value for Tier 2, which as a result is hardly used. Banks would sooner migrate customers from Tier 1 to Tier 3 (if they qualify) or keep them in the first tier (until they can meet requirements for the third) than move anyone to the second tier. It is unclear what exactly is meant by the requirement to verify ID documents at source and most interpretations render it very similar to the requirements for Tier 3.

Rigidity in pricing structures

The current revised guide to bank charges sparked a great deal of criticism. Part of that, understandably, is driven by the fact that this policy caps the income earning potential of banks—according to some the charges were even below their cost levels leading to loss-making transactions. While these income caps obviously drive discontent, they do not directly hamper financial inclusion; rather the charges do not allow banks flexibility to tailor charges based on the actual cost of serving

customer groups. Financial inclusion could benefit from a less rigid pricing structure. Some DMBs suggested that a pricing structure that included a ceiling to avoid exploitation but no minimum charge, would allow banks to compete on an offering that is more responsive to customer needs. This could lead to bundles/packages that are more attractive to banks and customers alike.

SUGGESTED CHANGES

As indicated above, not all of these challenges can be addressed in policies. Below is a list of suggestions pertaining to both policies as well as government behaviour:

- Develop and enforce supporting legislation from the telecommunications regulator (NCC) to tackle infrastructural challenges;
- Improve policy coherence, particularly to make sure the incentives built into bank charges are aligned with the goals of the Cashless Policy;
- Ensure policy implementation supports behavioural change:
 - Think about implications of phased rollout for uptake and make a contingency plan;
 - Increase predictability of the regulated/mandated incentives over time by keeping policies (and any required charges) constant for a while; and
 - Make a concerted effort to improve awareness of financial products and functionality of electronic payment channels
- Government should act as the role model, by actively using electronic channels and mobile money;
- Simplify administrative requirements under the tiered KYC regime: Redefine or remove the second tier, and allow “graduation” in limits for certain client categories, e.g., traders and others with a track record with the banks; and
- Allow flexibility of pricing structures by the financial institutions to allow the market to be more responsive to customer needs, as opposed to the current rigid structure.

MICROFINANCE BANKS

STRATEGIC FOCUS

This stakeholder group is more focused on the unbanked and under-banked segments but a reasonable proportion of their customers also bank with the DMBs. The DMBs are allegedly more aggressive in amassing deposits, but many customers still resort to the MFBs to obtain loans. There is a noticeable trend of a strong base of female customers, with some interviewees reporting that 50-90% of their customers and active borrowers are female. Some MFBs we interviewed claimed that female customers are easier to serve because they are less likely to default on their loans than the male customers. A focus on women is sometimes supported by capital providers—many development finance institutions (DFIs) or donors, which can capitalise MFBs and MFIs, specifically focus on empowering women as this has a larger multiplier effect on the development of their families and communities.

KEY DRIVERS FOR FINANCIAL INCLUSION

For those MFBs located in the rural areas, their physical proximity to the unbanked and under-banked segments has provided them with a better opportunity to pursue the inclusion agenda. Also, the nature of MFB operations—with a focus on savings and ideally located “closer” to consumers by

location or “feel”—makes servicing the unbanked and under-banked segments easier than for the DMBs. Some MFBs we interviewed, however, complained that certain limitations imposed by the Revised Microfinance Policy Framework, negatively affected their regional expansion opportunities.

FURTHER BARRIERS TO FINANCIAL INCLUSION AND IMPLICATIONS FOR POLICIES

The MFBs highlighted three main barriers to financial inclusion, with a fourth one being supported by some, but not all MFBs.

Access to affordable capital

Growing a banking business requires expanding capital, having a diversified portfolio of products (such as introducing mortgages), and finding capital with a matching, diversified tenure. The microfinance banks we interviewed highlighted financial constraints as the major obstacle to their growth/expansion and advancement of the financial inclusion agenda. Specifically, they mentioned:

“MFBs generally are barely managing to stay afloat—we borrow funds from DMBs at 28-30% and on-lend at 3% per month (36% p.a.), thus giving a margin of only 6% to cover operational costs. Our clients are also leaving very low balances in their savings accounts, given low disposable income of our clientele. We have limited capital to lend to SMEs.”

- The required change in capital requirement to grow from a State MFB license to a National license makes it hard for some MFBs to make this shift. At the same time, both larger MFBs and DMBs recognise the default risk that is associated with the currently very low capital requirement for the Unit license.
- The competition from DMBs in deposit mobilisation with a similar ‘core clientele’ as MFBs. Whether driven by trust, the attraction of brand names, or aggressive marketing and service provision, BoP and SME customers increasingly deposit their funds with DMBs, thereby reducing the amount of low-cost capital available for MFBs.
- While a CBN funding window has been available to DMBs, a window for MFBs only came into being much later through the Microfinance Development Fund in 2011. Many MFBs cite the terms of that window as unfavourable, which has led to limited uptake (and in turn to reallocating part of that window to DMBs, which understandably is not seen as a positive outcome by MFBs).

MFBs regulated as ‘mini’-DMBs, but not being given as much of a voice in shaping policies

Almost all MFBs see a number of aspects in policy and regulation, particularly in the Revised Microfinance Policy Framework and the Revised Regulatory and Supervisory Guidelines For Microfinance Banks (MFBs) in Nigeria, that seem to be modelled on regulation for DMBs, but are not

relevant for or responsive to the realities of MFBs—whilst they do drive up costs.¹³ Three specific elements were mentioned:

- Provision requirements for non-performing loans and portfolio at risk. The policy requires a loan to be counted as non-performing as soon as one payment is missed for at least a day—and requires microfinance banks to make partial provisions for that immediately. Many MFBs argue that the nature of their loan customers and the repayment behaviour (including real efforts to catch up on any delays) drive a reality where the provisions are overly cautious—as is evidenced by eventual write-offs far below the required provision levels. All stakeholders recognise that a prolonged period of default should lead to provisions—many suggest using the internationally frequently-employed metric of PAR30 days (Portfolio at Risk with over 30 days delay in payment) rather than the current metric.
- Requirements in personnel experience—such as the need to have a chartered accountant from Unit level onwards and a managing director with a minimum of five years of financial services experience. No MFB challenges the need to have qualified and knowledgeable staff and management, but quite a few of them challenge the exact requirements: they drive up costs (as only few candidates have these qualifications and MFBs compete with deposit money banks for them), whereas the skills and knowledge required do not necessarily mean that the candidates have knowledge that is relevant for microfinance and financial inclusion. A banking executive with only urban experience in, for example, corporate banking qualifies according to the regulations, but may have very limited understanding of what it takes to do microfinance well.
- High investment requirements for management information systems/data tracking expenditures. This comment was shared by several MFBs interviewed, though it has not been possible for us to assess whether the requirements are overly stringent or whether they are at the right level to secure bank sustainability and strengthen the financial sector.

At the same time, the MFBs interviewed did not feel as if CBN sees them as an equally important stakeholder as DMBs. While DMBs have often been involved early on in policy development, MFB consultation has not been a standard element of policy development. MFBs may not learn about a new policy until after finalisation and release, which deprives them of the opportunity to help shape it.

¹³ The Regulatory and Supervisory Guidelines builds on the Revised Microfinance Policy Framework and provides clarifications on operational requirements.

Difficulties in brokering beneficial partnerships

- The MFBs are open to considering other avenues for expansion that will make them more accessible to the unbanked and under-banked segments while also presenting opportunities for generating more economic value. They are interested in exploring opportunities with MMOs and DMBs. With the DMBs, they could potentially provide an agent network and help expand DMB footprint in the rural areas—seeing that the DMBs usually have a strong urban footprint. Similarly, one of the MFBs interviewed tried to engage a DMB to be its settlement bank to enable electronic banking, but could not find a DMB to support the idea.
- One MFB raised the issue of risk protection in mobile money transactions. As much as this MFB wanted to engage more closely in it, it was hesitant because there is no protection for banks that get caught in the middle of a fraudulent transaction.

“We would like to deploy ATMs and issue debit cards of our own. In fact, we have approached a number of DMBs to partner on expanding our reach. Unfortunately, these discussions are yet to be fruitful.”

SUGGESTED CHANGES

In synthesis, the MFBs suggest the following changes:

- Consider the creation of a regional licence that provides State MFBs with expansion opportunities even when they are unable to meet requirements for a National license.
- Consider adaptation of requirements to meet the specific needs and risk profile of MFBs (protection against the appropriate risk and removing an undue protection burden from other risks), such as:
 - Unit MFB infrastructure requirements;
 - Top team experience requirements; and
 - Loss loan provision rules (suggested to be replaced by PAR30 as a trigger).
- Rethink the capital requirement for Unit MFBs (most suggest to raise).
- Forge/encourage and develop incentives for partnerships that will foster financial inclusion.

But above all, the MFBs want to be more included in shaping the policies, which will make these policies more responsive and specific to MFBs needs and characteristics.

MOBILE MONEY OPERATORS

STRATEGIC FOCUS

Though the MMOs have not generally claimed to be pursuing a financial inclusion agenda (although a few have an explicit focus on this area), whether intentionally or not their platform does present other stakeholders with the opportunity to drive the agenda. For instance, disbursement of payments attached to welfare packages such as Federal Government Conditional Cash Transfer programme under the Millennium Development Goals (MDGs) project, or Federal Ministry of Agriculture and Rural Development input subsidies and payments constitute a significant portion of the money transfers carried out using mobile money.

KEY DRIVERS FOR FINANCIAL INCLUSION

Mobile money can help drive financial inclusion, but it does not happen automatically. Clear cases where mobile money has helped in increasing financial inclusion include situations in which state governments have been instrumental in driving the use of this channel, particularly with people who were previously unbanked or under-banked. This has been happening in Nigeria, albeit on a limited scale. One of the MMOs is piloting a product in Osun State, where a state-wide project to provide everyone with identity documentation has contributed to the ease of running this pilot. Twenty-five per cent of the users were previously excluded from the financial sector, with the remaining 75 per cent having MFB accounts. In Ekiti State, the Federal Government Conditional Cash Transfer (CCT) is also being disbursed through mobile money wallets, though it is unclear what portion of the recipients was previously unbanked. Based on interviews we conducted, a number of states in Northern Nigeria are also in discussions with mobile money operators about how to incorporate mobile wallets into their social welfare programmes.

The MMOs themselves largely believe the already banked segment will be the first users who will then inspire adoption of mobile money by others, because they see others using it or because they receive money via mobile money (who may be under-banked but are not likely to be unbanked). While mobile money may enable financial inclusion, there is no clear indication as to whether the unbanked and under-banked segments will readily adopt mobile money.

FURTHER BARRIERS TO FINANCIAL INCLUSION AND IMPLICATIONS FOR POLICIES

- Awareness poses a huge challenge:
 - The unbanked and under-banked usually constitute a segment with low literacy levels that are unlikely to adopt the concept of mobile money without some targeted assistance. The MMOs complain of the average Nigerian's inability to see the mobile phone as a utility, useful for more than making calls, sending/receiving text messages and social media services.
 - Unfamiliarity and low comfort levels with the concept of cashless transactions also hinders adoption and inclusion via the medium. Nigeria's economy is still largely cash based and comfort levels with the concept of the value of electronic money is low—especially given the infrastructural challenges that often cause failure in electronic transactions. For these reasons, most people who receive payments via mobile money are quick to cash out (up to 80% in Ekiti State CCT) as opposed to leaving money in the wallet for transactional purposes.
- Infrastructural challenges/hurdles are also a hindrance:
 - Infrastructural challenges: The erratic nature of network signals is a major challenge for mobile money in Nigeria. Network failure, which often occurs, will inadvertently lead to transaction failure. Frequent failures reduce the level of trust in mobile

“Retailers are at the core of inclusion—their acceptance of e-payment options is a driver. CBN should concentrate on how to increase e-payments acceptance by retailers, while also incentivising rather than penalising adoption.”

money as at times users still incur transaction charges (for running the Unstructured Supplementary Data [USSD] codes) even when the transaction fails.

- Limited interoperability: Whilst it is possible on paper, MMOs expressed concerns about issues with and costs related to achieving interoperability.

SUGGESTED CHANGES

Many of the changes that would be needed to enable the further use of mobile money hinge on behavioural patterns that cannot be resolved by policy changes alone. Particularly, the sector would benefit from a concerted effort to increase awareness and functionality of mobile money platforms and an improvement in infrastructural performance. The latter might be enforceable through related policies and regulation.

Importantly, government behaviour can be a big driver for encouraging adoption. Many interviewees suggested government should take the lead in driving adoption by making payments to vendors and staff via mobile money, and by creating regulations that stipulate the use of mobile money channels for government transactions below a specific amount.

The set of current policies can further be strengthened by:

- Enforcing interoperability for wallet-to-wallet payments; and
- Providing convenient/accessible points of recourse whenever there is transaction failure.

MOBILE NETWORK OPERATORS

STRATEGIC FOCUS

Compared to providing telecommunications services to the Nigerian population financial inclusion is not a core strategic focus for MNOs. Most of the MNOs are focused on the mass market, which tends to mean 25-60% of their subscribers might be considered underserved or base of the pyramid. The MNOs are keen on providing services that meet customer needs and possibly make their brand

“Mobile money is seen as a competitive advantage for us. However, across the policies, we are concerned about making the economics work—and being involved in discussions rather than reacting to them. There seems to be an idea that our services should be a public good. Financial sustainability needs to be a core part of the conversation on financial inclusion.”

more attractive to customers in a very competitive industry.

As the backbone for mobile money transactions and an enabler for internet/application-based banking, the MNOs have an important function in the ecosystem. While the mobile payments framework is under review, the MNOs are generally “waiting for a conclusion.” However, MNOs interviewed later in the process seemed

optimistic about the proposed policy updates—particularly a clarification of the role of MNOs in mobile payments—even while raising some concern about how the recommendations will actually be implemented.

FURTHER BARRIERS TO FINANCIAL INCLUSION AND IMPLICATIONS FOR POLICIES

The major barrier to financial inclusion raised by MNOs is infrastructural challenges. In addition, shortcomings in government behaviour, both in government's own transactions as well as in its involvement of the MNOs:

- Inadequate power supply, which increases their costs of operations.
- Lack of retail infrastructure to support mobile transactions: without a large number and variety of mobile money agents where consumers can load cash onto and withdraw cash from their mobile wallets, mobile money will not take off. Retail sales outlets such as chains of petrol stations and supermarkets, large concentrations of shops in shopping centres as well as individual small kiosks, can be instrumental in this. These outlets will drive user awareness, but also serve to drive the volume of transactions that would make the business model work for the MNOs and other actors.
- Insufficient government initiatives to drive uptake further: as we've stated multiple times in this report, mobile money is caught in a chicken-and-egg situation: consumers are not used to mobile money and don't use it a lot and therefore don't build a sufficient level of comfort with it. In addition to government making its own payments electronically and thus leading by example, government could enable and subsequently require payments made to government (such as taxes and utilities) to be made using electronic channels.
- Limited MNO participation in mobile money: MNOs would appreciate the opportunity to have a more active role in the sub-sector. This is understandable from their perspective and interest since a telco-led model (such as M-PESA) is not allowed in Nigeria and could be much more attractive (from a business perspective) to MNOs than their current role of enabling other actors. As a result, some stakeholders wondered whether the policies have not placed too many constraints on an emerging and innovative space. For example, questions were raised about the types of mobile money models that have been allowed or disallowed. The launch of the combined product of a bank and an MNO earlier this year, for instance, raised questions about the validity of the product and the ability of MNOs to operate as super-agents. The MNOs recognise their own competence in three components of mobile money operations: the GSM network, customer reach – number of customers across the Nigeria, and customer touch – existing sales points for airtime and other products and services. Some believe that if they were allowed to participate on a larger scale, the MNOs would exert greater effort in driving the inclusion agenda.
- Limited consultation during policy formulation stages: there were mixed opinions on engagement. Some of the MNOs complained about being excluded from the policy drafting process, with one MNO mentioning feeling as though the CBN generally ignored the sector as a stakeholder group. Others claim the opposite, with two stakeholders praising the level of consultation as they had company representation on a committee reviewing the mobile payments services framework. However, MNOs have suggested a need to be further involved in broader policy discussions beyond solely the directly relevant policies. For example, one operator suggested that it only learned about the revised tiered KYC regime six

months after the release, and from a bank partner rather than from the CBN or other government actors.

SUGGESTED CHANGES

Improved power supply—which is outside of the CBN’s purview—was perhaps one of the greatest non-policy requirements for the MNOs to pursue inclusion more aggressively. Mobile money does rely on good connectivity and network performance, which might need to be further enforced or regulated. Not surprisingly again, this barrier surfaced predominantly in interviews with other stakeholders than MNOs.

However, it is also clear from MNO interviews that they would like to increase the permissible mobile money models to include a telco-led model, or at a minimum clearly define the role and opportunities for telcos. Apart from the MNOs, no other stakeholders mentioned this potential policy change (again understandable given business interests, as telco-led model would represent serious competition to other mobile money models). It is difficult to establish whether or not allowing a telco-led model would increase the availability of mobile money to the unbanked and under-banked at affordable costs. Some stakeholders (not the MNOs) see the high fees currently charged for mobile money transactions by the MNOs as proof of the monopoly of telcos, which would make mobile money unnecessarily expensive in a telco-led model. Others see the same information—relatively high transaction costs—as proof that a bigger telco role would help drive the costs down.

All the MNOs we spoke with requested clearer communications with the CBN and other actors, noting that engaging the variety of actors will only serve to help build and deliver a more inclusive financial services sector in Nigeria. The proposed engagement would ensure not only buy-in but also an understanding of the opportunities, returns, and models being encouraged in the country. In the view of MNOs, this engagement—particularly when followed by clear policy articulation and regulation—will provide some level of stability required for investments into new or expanded infrastructure to support mobile money transactions.

AGENT NETWORK AGGREGATORS

STRATEGIC FOCUS

The agent network aggregators (ANAs) are mostly unfamiliar with the National Financial Inclusion Strategy. Though their operations are key in driving financial inclusion, it is not necessarily a strategic imperative for all. One aggregator claimed the firms playing in the space are largely network managers and not aggregators. DMBs interviewed suggested they are looking for large aggregators that can help quickly expand reach and roll out products across a broader geographic area, but that these large, established aggregators are lacking.

FURTHER BARRIERS TO FINANCIAL INCLUSION AND IMPLICATIONS FOR POLICIES

Agent network aggregators suggested that the drivers of financial inclusion had to do less with strategy documents and more with consumer awareness, merchant placement, and developing a system that is financially sound and profitable. Existing policies—for example, the mobile payments framework—were deemed to be too rigidly defined for a market that is still evolving. While ANAs

suggested that agent banking has the potential to unlock financial inclusion—and requires a certain level of trust—they feel the registration requirements for agents significantly limit growth of the agent networks. For example, small shops in remote communities would be very suitable to drive financial inclusion as they usually know their customers really well and are trusted by them. However, due to their informality they often lack the required documentation, despite having been in business for years, if not decades. ANAs believe that proving the financially sustainable model for becoming an agent and then signing up agents will be the most significant driver of financial inclusion. The agents, according to the network aggregators, will drive consumer awareness and will be advocates for agent banking if it makes financial sense for these agents to invest in the requisite equipment (POS terminals, mobile phones, etc.) and complete the registration processes. We include further detail on these barriers below:

- Low returns for agents/lack of business case: it has proven very difficult to maintain extensive agent networks because the majority of the agents recruited quickly become dormant, mostly upon realising the limited financial returns on agent banking. The account opening commission and commission per transaction are not sufficient to constitute a lucrative business, especially given the low rate of subscription to the services offered by the agents. Further, it is difficult to acquire equipment for POS terminals (up to NGN 25,000 investment according to one ANA interviewee) as agents are required to pay upfront. While some agent network aggregators are exploring lending products for existing agents, there is a high barrier to entry for new agents, or else a large risk to be taken on by aggregators or other actors. Further, agent banking may pose further costs in the form of higher rent for business premises for agents operating agent banking schemes (the branding by banks can suggest ability to pay higher rent).
- Stringent agent qualification requirements: the qualification requirements have been considered too stringent for businesses based in the rural or peri-urban areas that are likely agent candidates. Specifically, both aggregators as well as DMBs criticise the requirement that agents need to have existing commercial activity for at least 12 months—despite it being quite specific, all stakeholders struggle with how to prove the fulfilment of this activity requirement. This makes agent recruitment difficult for the aggregators. On the other hand, minimum agent requirements do ensure the agents are capable of and reliable in dealing with money. They are likely to be the first (or even only) point of contact between customers and the bank and are thus crucial in strengthening customer trust in financial institutions. How to best strike this balance with regard to the requirements is difficult to determine from stakeholder interviews alone.

“Informal structures are enough and likely to be more powerful than paper in an environment where paper qualifications can be manufactured. We should consider alternative verification methods for the agents, e.g., taking into account their role in the community, and providing risk-sharing mechanisms to [ANAs] to allow growth.”
- Non-exclusivity of agents discourages investment: the non-exclusivity clause has been seen as potentially beneficial since it would lead to an increased number of access points for users, regardless of their financial services provider. However, the clause has seen most potential principals maintain an anticipatory stance—waiting to see the agents deployed and

set up by others so they can take advantage. Some principals in favour of the non-exclusivity clause stated clearly that they are in favour of the clause because it provides the opportunity to benefit from others' infrastructure. Those who have already deployed agents complain of the inability to recoup their investments due to the non-exclusivity clause and lack of guidelines around charging for the usage of agents sponsored by other principals. As a result, investments in agent networks are limited, which is a hindrance to the rollout—which in turn has negative implications for the aggregators' businesses.

- Perceived security threat: some of the agents perceived a major security threat in handling lots of cash, or being considered as a "bank representative". Without adequate security detail, agents fear becoming easy targets for robbers. Interviewees suggested that this has stopped some business from signing up as agents.
- CBN's misrepresentation of the sector: the aggregators also complained of the regulator's incorrect representation of the sector. According to the aggregators, the CBN publishes a figure (number of agents) that does not reflect the high turnover rate and high level of dormancy.

SUGGESTED CHANGES

The aggregators interviewed felt it is important for agents to have better incentives, to ensure that agent banking becomes a lucrative business. These incentives will probably not be regulated in policies but instead should be part of the banks' operating models. A comparison with other countries where agent banking has taken off significantly could help to shed light on the right balance in pricing (which in turn could drive up user costs). Such an assessment should also take into account what part of the agent's total business the agent banking commission constitutes—a model in which an agent has no other source of income is unlikely to succeed financially and, ultimately, is not what agent banking was originally set up to be.

With regard to the policies, the aggregators suggest two changes, both of which are directly related to their own business model and incentives:

- Review the non-exclusivity clause to provide for recoupment of initial investment, perhaps through charging for usage by principals who did not set up the agents (note that this point on slowed or lack of investment seems confirmed by some banks, e.g., waiting for others to make the first move).
- Review the agent requirements to allow for participation of a wider range of potential agents who, though running smaller businesses, are presently in the areas with the most financially excluded demographics. As stated above, this participation should be carefully managed to ensure sufficient trustworthiness and reliability of the agents.

4. RECOMMENDATIONS

It has become clear that the reviewed financial inclusion-related policies have made a difference. Across the board, stakeholders have undertaken activities to spur financial inclusion, including the development of new product offerings. However, it is also clear that different stakeholders have a different degree of focus on financial inclusion. Moreover, the one government measure that seems

to have provided the biggest push toward a focus on banking the unbanked and under-banked was not intended to spur financial innovation: the requirement for banks to recapitalise, which made them turn to the cheap deposits of the unbanked and under-banked. Conversely, the barriers most frequently mentioned in our interviews do not fall within control of the CBN but concern the reliability of power and connectivity.

The above confirms that policy has a distinct, but not all-encompassing effect, that anything that creates business incentives is likely to have the biggest impact (in either direction), and that policies need to be coherent and consistent across multiple policy areas to be effective.

Notwithstanding this need to create coherent and consistent policies across other areas (for example, with regards to power and telco network performance), our research has produced a number of clear recommendations on the specific policies governing financial inclusion for the Central Bank of Nigeria and other actors. These recommendations focus not solely on the financial services sector, but the broader policy ecosystem that must be taken into account in order to meet the targets set in the National Financial Inclusion Strategy.

POLICY DEVELOPMENT AND ENFORCEMENT PROCESS

Coordinate across CBN departments. A number of departments within the CBN are tasked with creating, updating, and enforcing policies. Because of the complex nature of financial inclusion and the wide range of stakeholders affected by individual policies, closer coordination—beyond solely internal communications—may be required in order to fully understand the implications of individual policies on the others. For example, the harmonisation of Tiered KYC, agent banking, and mobile payments policies requires at least two departments working closely together; in the absence of seamless close cooperation, inconsistencies can emerge—as an example, the lowest tier in the Tiered KYC has a different requirement than the minimum requirement level in the mobile payments framework; standardised account opening forms suggest a different set of required information outside of the KYC regime.

To achieve improved coordination across the CBN departments, the following activities could help:

- Joint stakeholder engagement;
 - Joint/integrated policy development processes; and
 - Clearer coordinating and supporting activities assigned to the Financial Inclusion Secretariat.
-
- *Identify enforcing and enabling mechanisms outside of the Central Bank of Nigeria through the Financial Inclusion Steering and Technical Committees (in development).* Given the large number of actors involved in financial inclusion, the CBN alone cannot police or enforce all the existing policies (unless the CBN's jurisdiction is expanded, CBN on its own will be unable to enforce all policies relating to financial inclusion as some fall under the mandate of other regulators). Policy enforcement on the tariffs for mobile payments and agent banking on the part of non-bank actors—e.g., MMOs, MNOs, network aggregators, etc.—must be undertaken by other regulators such as NCC, which requires enforcement powers (and budget) to do so. Further, involving service delivery ministries and agencies (health, agriculture), infrastructure (NCC, works), retail/consumer parastatals (NAICOM, PenCom) and others in financial inclusion policy development will help deepen financial inclusion. Involving these institutions should focus on educating these agencies' decision-makers on the benefits of and requirements for achieving

financial inclusion, and on jointly developing policies outside of the core banking sub-sector. This could for example include policies that require electronic payments by or to these government institutions.

Be responsive to the broad set of stakeholders, but limit the number of and timeframe for major reversals. Changes to bank charges and the Cashless Policy over the past year, in addition to the concerns with gaps raised in the mobile payments and agent banking policies, have led a number of stakeholders to be hesitant about making big investments in these areas. While some actors have moved forward in the “grey area” of the policies, the predominance of early stage “pilots” in agent banking is perhaps a sign of this hesitation. Further, there is concern among stakeholders that consumers are not being properly signalled by the Central Bank—constant reversals and changes do not create clear incentives to espouse usage of electronic payment channels.

POLICY DISSEMINATION

Clearly communicate policies and policy changes. Across stakeholder groups, interviewees suggested that they were not made directly aware of a number of CBN policies affecting their operations. Some of these interviewees heard of the policies from other industry actors, or else from workshops and sessions with organisations such as EFInA and the Chartered Institute of Bankers of Nigeria (CIBN). In order for policies to fully take effect, they need to be fully understood and even “championed” (or at least taken on board) by the financial services providers. Further, understanding the rationale for these policy changes allows financial services sector actors to make the requisite operational or strategic changes to benefit from or implement the policies.

Work with the Ministry of Education, other education actors, behavioural economists, and others to support consumer awareness campaigns and training. Beyond ad hoc events and initiatives sponsored by CBN, banks, MMOs, MNOs, and other actors, consider identifying a communications strategy to support financial inclusion.

CHANGES TO SPECIFIC POLICIES

Based on the stakeholder interviews and the current state of financial inclusion landscape, a number of policy-specific changes have been recommended. These recommendations focus primarily on shifting from hard rules to allow more flexibility, innovation/competition, or responsiveness to the market, and introducing new policies/rules to support financial inclusion or specific elements of the National Financial Inclusion Strategy.

ALLOWING MORE FLEXIBILITY (WHILE MAINTAINING FISCAL REQUIREMENTS AND TRUST)

Agent banking and mobile payments recommendations

- Review agent registration requirements based on past relationships with agent aggregators, MMOs, banks, or MNOs.
- Remove per transaction limits for Tier 1 to allow certain sections of consumers—cattle/livestock traders, market merchants, traders—to do business using normal transaction values.
- Similarly, revise transaction restrictions in Tier 1 to allow growth in transaction volumes and values, as customers build a track record with financial institutions, MNOs, etc.

Bank charges recommendations

- Incentivise positive consumer behaviours, rather than penalise them. Provide bonuses rather than (only) charges for certain transactions.
- Instate *ceilings* rather than fixing bank charges to allow freer competition in the market.
- Refrain from further policy reversals.
- Continue to publish rates widely, ensuring bank compliance and consumer awareness.

INTRODUCING NEW POLICIES/RULES

Cash-less Policy recommendation

- Begin to levy cash handling related charges nationally (in part to remove the incentive to cross state borders to complete transactions).

Financial Literacy Framework recommendation

- Mandate financial literacy education as part of the primary, secondary, and adult education curricula (working with relevant ministries and agencies at the federal and state levels).
- Allocate funds for training and awareness-raising campaigns from banks' contributions to the education tax, CBN funds, and others (banks, donor agencies, etc.).

Non-interest Banking recommendation

- Allocate a fund for non-interest windows and dedicated non-interest financial institutions so they can borrow within the regulations, e.g., governing Sharia compliance.

Microfinance Policy Framework recommendation

- Introduce a fourth tier—regional microfinance bank—to allow those up-and-coming state banks to gain further network and capital before the significant capital requirements at the national level.

ANNEX I: SUMMARY OF SELECT FINANCIAL INCLUSION POLICIES

LIST OF POLICIES ASSESSED IN THIS REPORT

- ✓ Regulatory Framework for Mobile Payments Services in Nigeria (2009)
- ✓ Revised Microfinance Policy Framework for Nigeria (2011)
- ✓ Cash-less Policy (2012)
- ✓ Framework for National Financial Literacy in Nigeria (2012)
- ✓ National Financial Inclusion Strategy (2012)
- ✓ Guidelines on Non-Interest Window and Branch Operations of Conventional Banks and Other Financial Institutions (2011)
- ✓ Tiered KYC Regime (2013)
- ✓ Guidelines for the Regulation of Agent Banking and Agent Banking Relationships in Nigeria (2013)
- ✓ Revised Guide to Bank Charges (2013)

1. REGULATORY FRAMEWORK FOR MOBILE PAYMENTS SERVICES IN NIGERIA (2009)

The framework covers regulatory requirements for all mobile payments—card account based, bank account based and stored value (e-money) account based transactions—and clearly stipulates the roles/responsibilities of all players/participants and highlights the acceptable mobile payment models. Its main objective is to foster the cash-less economy agenda by reducing reliance on cash or economic transactions and creating an enabling environment for cash-less payments. The regulation demands that each payment system support the following key processes: registration, service activation, transactions, and settlement. There are also clear technology specifications for the payment platforms. The regulation also features some guidance on agent networks.

Implications/requirements

The CBN stipulates three models for mobile payment systems: bank-led, non-bank-led and bank-focused models. The policy has necessitated the development of new technical capabilities in order to comply with the technology requirements for transacting mobile payments and meeting demands for agent network creation or expansion.

Stakeholders affected

Deposit money banks, microfinance banks, agent network aggregators, mobile money operators, mobile network operators, switch, and industry associations.

2. REVISED MICROFINANCE POLICY FRAMEWORK FOR NIGERIA (2011—UPDATING THE 2005 VERSION)

The framework remains very high-level, principally describing the sector, providing an overview of activities between 2005 and 2011 (i.e., progress since 2005 framework); enumerating weaknesses/needs in the sector etc. Similarly, the policy sets a number of objectives, outlines very high level policy ‘strategies’, and defines roles and responsibilities (i.e., government, CBN, apex associations, MFBs, MFIs, donors, and development partners).

Policy objectives include making financial services accessible to a larger segment of the population; promoting synergy/mainstreaming of the informal sub-sector into the national financial system; enhancing service delivery by microfinance institutions to micro, small and medium-sized enterprises (MSMEs) and SMEs; contributing to rural transformation; and promoting linkage programs between deposit money banks, development banks, specialised institutions, and microfinance banks.

Key policy targets are:

- To increase access to financial services of the economically active poor by 10% annually;
- To increase the share of microcredit as i) a percentage of total credit in the economy from 0.9% in 2005 to at least 20% in 2020 and ii) a percentage of GDP from 0.2% in 2005 to at least 5% in 2020;
- To ensure the participation of all states and the Federal Capital Territory (FCT) as well as at least two-thirds of all the local government areas (LGAs) in microfinance activities by 2015; and
- To eliminate gender disparity by ensuring that women’s access to financial services increases by 15% annually—that is, 5% above the stipulated minimum of 10% across the board.

Implications/requirements

The licensing and supervision of microfinance banks is the responsibility of the CBN.

The policy provides the following categorisation of the microfinance banks:

- Unit microfinance banks—minimum capital of NGN 20 million; prohibited from having branches and cash centres;
- State microfinance banks—authorised to operate in one state or the FCT; minimum paid up capital of NGN 100 million; allowed to open branches within the same state or the FCT, subject to prior written approval by the CBN; and
- National microfinance banks—authorised to operate in more than one state including the FCT; required to have a minimum paid up capital of NGN 2 billion; allowed to open branches in all states of the Federation and the FCT, subject to prior written approval by the CBN.

The policy prescribes the transformation path between categories: “A State MFB that intends to transform to a National MFB must have at least 5 branches which are spread across the Local

Government Areas in the State. It shall also be required to surrender its license and fulfil other stipulated requirements.”

In order to protect depositors’ funds and reinforce public confidence, the policy calls for MFBs to qualify for the deposit insurance scheme of the Nigeria Deposit Insurance Corporation (NDIC).

The policy recognises that microfinance banks can be established by individuals, groups of individuals, community development associations, private corporate entities, NGO-MFIs, or foreign investors. However, ownership of more than one MFB is prohibited.

The policy outlines a number of initiatives that the CBN should lead/establish, including capacity building programs, microfinance certification programs, rating agencies, a microfinance development fund etc.

Stakeholders affected

Microfinance banks and industry associations.

3. GUIDELINES ON NON-INTEREST WINDOW AND BRANCH OPERATIONS OF CONVENTIONAL BANKS AND OTHER FINANCIAL INSTITUTIONS (2011)

Generally, a non-interest financial institution (NIFI) is defined as *“a bank or other financial institution, which transacts banking business, engages in trading, investment and commercial activities as well as the provision of financial products and services in accordance with established non-interest banking principles”*.

The guidelines focus specifically on non-interest banking based on Islamic principles and non-interest banking based on other established principles. The objective of the guidelines is to provide minimum standards for the operation of non-interest banking in Nigeria.

The guidelines provide details on commissions and fees (basically referring to the bank charges regulation—see policy 6), corporate governance, and profit sharing investments accounts.

Public criticism of the guideline emphasises that it marginalises firms who seek to practice non-interest banking without compliance with Islamic jurisprudence. It appears that the CBN has issued a new guideline, accommodating other variants of non-interest banking that may not be Sharia-compliant.^{14,15}

¹⁴ <http://www.afminetwork.org/en/news/610/nigeria-central-bank-issues-additional-guidelines-on-non-interest-banking.html>

¹⁵ The latest guidelines have not yet been officially released, with only references as in the link provided above.

Implications/requirements

A conventional financial institution may offer/sell non-interest and other Sharia compliant banking products/services through subsidiaries, windows, and branches only. The subsidiary/window/branch is not allowed to sell other products/services non-compliant with non-interest banking principles.

The CBN issues a license for this banking model which is valid for three years.

All licensed non-interest banking operator shall have an internal review mechanism that ensures compliance with the principles of the banking model. An advisory committee of experts (ACE) shall also be part of the governance structure.

Stakeholders affected

Deposit money banks, microfinance banks, and industry associations.

4. CASH-LESS POLICY (2012)

The CBN announced its Cash-less Policy in 2011 and commenced a pilot of the policy in Lagos State in April 2012. The policy, intended to reduce the use of cash, has three key stated objectives:

- To drive the development and modernisation of the payment system in line with Vision 2020;¹⁶
- To reduce the cost of banking services and drive financial inclusion by providing more efficient transaction options and greater reach; and
- To improve the effectiveness of monetary policy in managing inflation and driving economic growth.

The goal is not to eliminate cash from the economy but to reduce its usage due to the following:

- **High cost** of handling cash;
- **High risk**—in terms of security and loss—of keeping cash on hand;
- **High subsidy**, with the entire banking population subsidising the high transaction cost which are incurred by a limited number of high-value transaction (i.e., the 10% of the transactions that are over NGN 150,000);
- **Informal economy** which is difficult to account for in cash/trail-less transactions; and
- **Inefficiency and corruption** which is also encouraged due to the lack of a paper trail.

Implications/requirements

- Cash handling charges on withdrawals and deposits exceeding NGN 500,000 for individuals and NGN 3,000,000 for corporate bodies (these charges have recently been removed by the current CBN governor).

¹⁶ Vision 2020 refers to Nigeria's Vision 20:2020, the country's economic development strategy, which aims for Nigeria to be one of the 20 largest economies in the world by 2020.

Account Type	Withdrawals/lodgements limits	Processing fee for withdrawals	Processing fee for lodgements
Individual	NGN 500,000	3%	2%
Corporate	NGN 3,000,000	5%	3%

- Only CIT (cash in transit) licensed companies are allowed to provide cash pick-up services. Banks that continue offering the service will be sanctioned.
- Third party cheques above NGN 150,000 shall not be eligible for encashment over the counter. Value for such cheques shall be received through the clearing house.

Rollout was staggered, beginning with a pilot in Lagos State in 2012.

Stakeholders affected

Deposit money banks, microfinance banks, agent network aggregators, mobile money operators, switch, card issuance companies, and industry associations.

GUIDELINES OF POINT OF SALE (POS) CARD ACCEPTANCE SERVICES (2011)

The POS guidelines are directly linked to the Cash-less Policy. They were developed to provide minimum standards and requirements for operating POS card acceptance services.

Implications/requirements

The CBN's POS guidelines, published in 2011, have a broad impact across the structure of the payment card market, including (i) capping the maximum merchant service commission that acquirers can charge merchants at 1.25% or a maximum of NGN 2,000, (ii) limiting the role of connecting and maintaining POS devices only to licensed Payment Terminal Service Providers (PTSPs), and (iii) restricting the ability of merchants to charge customers for paying with cards. Timeline for compliance was December 2012.

The POS guidelines apply nationally, but Lagos State has seen the biggest impact since most POS terminals have been deployed there. POS deployment targets were set at 40,000 terminals by December 2011, 75,000 by June 2012, and 150,000 by December 2012.¹⁷

Stakeholders affected

Deposit money banks, microfinance banks, agent network aggregators, mobile money operators, switch, card issuance companies, and industry associations.

¹⁷ National Financial Inclusion Strategy (2012)

5. NATIONAL FINANCIAL LITERACY FRAMEWORK (2012)

The National Financial Literacy Framework is a high level (and hence not very specific) strategy/implementation plan linked to the National Financial Inclusion Strategy 2012, outlining Nigeria's plans to enhance financial literacy. The Financial Literacy Framework aims to help reach this overarching goal by strengthening financial literacy, increasing the abilities of individuals and firms to generate and save income, and creating a platform for stakeholder engagement and interaction around financial inclusion.

The framework emphasises a particular focus on (i) children, youth, and undergraduates; (ii) educated population; (iv) uneducated population; (v) financial service providers; and (vi) policymakers, regulators, and other stakeholders.

The CBN will coordinate the implementation of the framework. The framework outlines the roles and responsibilities of other stakeholders including ministries, civil society organisations (CSOs), bankers' committees, trade unions, etc. The framework includes an implementation plan (short/medium/long-term) but does not assign responsibilities for its various elements.

Implications/requirements

The framework makes reference to financial services institutions (i.e., DMBs and other financial institutions), encouraging the provision of structured training programs for staff of financial institutions. Other responsibilities (i.e., not listed as requirements) of financial service providers include:

- Collaborating with the CBN/other stakeholders on implementation of financial literacy initiatives;
- Designing in-house training and capacity building for staff;
- Educating consumers on products and services;
- Engaging in consumer awareness programs through media; and
- Providing capacity building to MSMEs.

Stakeholders affected

Deposit money banks, microfinance banks, and industry associations.

6. NATIONAL FINANCIAL INCLUSION STRATEGY (2012)

The Strategy maps the current landscape of financial inclusion in Nigeria by category of financial service (distinguishing payments, credit, savings, and insurance) and defines targets for Nigeria in terms of access to and use of financial services within a define timeframe.

The Strategy draws on EFInA's Access to Financial Services in Nigeria surveys to profile the financially excluded by demography, geography, and barriers to access.

The Strategy commits to reducing financial exclusion to 20% by 2020 and to increasing the penetration of payments products to 70% of the adult population. It aims to achieve this through a

range of coordinated interventions, such as tiered KYC, agent banking, and mobile money. As such, the strategy serves as an overarching framework for Nigeria's financial inclusion agenda and aims to highlight opportunities and responsibilities for driving financial inclusion.

Implications/requirements

For the first time in Nigeria, the strategy defines financial inclusion targets across a range of metrics including the following:

Metric	Targets			Units
	2010	2015	2020	
Payments	21.6%	53%	70%	Per cent of total adult population
Savings	24%	42%	60%	
Credit	2%	26%	40%	
Insurance	1%	21%	40%	
Pensions	5%	22%	40%	
Branches	6.8	7.5	7.6	Units per 100,000 adults
MFB Branches	2.9	4.5	5.0	
ATMs	11.8	42.8	59.6	
POS	13.3	442.6	850.0	
Mobile money agents	0	31	62	

Further, the Strategy outlines a number of potential models to support deeper financial inclusion and scenarios to meet the targets. The strategy also outlines and prioritises the key challenges and the roles and responsibilities of the individual actors involved in financial inclusion.

The Strategy goes on to reference work plans for coordinated roll out of financial inclusion products and services, including potential pilot options, timelines, and communications and dissemination plans.

Stakeholders affected¹⁸

Deposit money banks, microfinance banks, agent network aggregators, mobile money operators, mobile network operators, switch, card issuance companies, and industry associations.

7. GUIDELINES FOR THE REGULATION OF AGENT BANKING AND AGENT BANKING RELATIONSHIPS IN NIGERIA (2013)

The overall aim of the guideline is to enhance financial access in hard-to-reach areas/underserved markets through an agent banking model. Agent banking is defined as the provision of financial services to customers by a third party (agent) on behalf of a licensed deposit taking financial

¹⁸ Reflecting feedback from EFInA on which policies should be discussed with specific stakeholder groups.

institution and/or mobile money operator (principal). The guidelines stipulate documentation requirements for agent registration with the CBN, modalities of the agent banking relationships, and the roles and responsibilities of involved parties. The policy document is very explicit about eligibility requirements for agents and has an extensive list of permissible and prohibited activities. In addition, it includes detailed requirements on risk management procedures and confidentiality of customer and user information.

The objectives of the guidelines are to

- Provide minimum standards and requirements for agent banking operations;
- Enhance financial inclusion; and
- Provide for agent banking as a delivery channel for offering banking services in a cost effective manner.

Implications/requirements

Examples of requirements for financial institutions:

- Must be approved by the CBN for agent banking operations;
- Are responsible for following due diligence in agent selection and throughout relationship; must follow one of three stipulated agent structures: super-agents (i.e., contracted by the principal and can sub-contract other agents, retaining overall responsibility for other agents), sole-agent (i.e., sole responsible agent), and sub-agents (i.e., subordinated to super-agent);
- Must ensure the agent complies with Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) requirements;
- Are wholly responsible and liable for all actions or omissions of their agent; and
- Must submit data on agent operation to CBN monthly; CBN shall have free and full access to internal systems, documents, reports etc.

Examples of requirements/restrictions on agents:

- Not permitted to charge any fees directly to customers;
- Not allowed to give any guarantees;
- Not allowed to open accounts or grant loans;
- Not allowed to transact in foreign currency or provide cash advances; and
- Should have been carrying out commercial activity/have been operational for 12 months to be selected by financial institution.

Other: Exclusivity agreement between agent and financial institution is prohibited.

Stakeholders affected

Deposit money banks, microfinance banks, agent network aggregators, mobile money operators, mobile network operators, switch, and industry associations.

8. TIERED KYC REGIME (2013)

This circular is an amendment to several paragraphs of the 2009 regulation and now allows for graded levels of KYC requirements. The objective of the policy is to deepen financial inclusion by ensuring application of flexible account opening requirements for low- and medium-value accounts.

Implications/requirements

The new KYC regime allows third parties such as clergymen, village elders, and headmasters to identify the socially disadvantaged aspiring customers of low and medium value accounts. It also calls for the creation of less stringent policies around identification documents. For risk management purposes, there are limits on daily transactions (cash and mobile) and cumulative account balance which are more stringent than those of high-value accounts. The policy also permits online account opening and some banks have gone as far as creating avenues for opening new accounts on social media platforms.

Stakeholders affected

Deposit money banks, mobile money operators, and industry associations.

9. REVISED GUIDE TO BANK CHARGES (2013, REVISED FROM 2004 EDITION)

The regulation/guide on bank charges provides a standard for the application of charges deposit money banks levy on customers (individuals, corporations, government). The objective of the guide is to enhance the flexibility, transparency, and competition of the Nigerian economy whilst minimising conflict between banks and customers.

Charges listed include, amongst others, interest on deposits, interest rates/lending fees, interbank borrowing rates, commission on bonds/guarantees/indemnities, foreign exchange commission, electronic banking, etc.

Implications/requirements

The regulation/guide indicates disclosure requirements and rates for each product/service. An important change from the 2004 edition of the guide is the commission on turnover (COT—applicable on customer-induced debit transactions on current accounts), capped at NGN 3 per mille in 2013, with further reductions in 2014 (NGN 2 per mille), 2015 (NGN 1 per mille), and full scrapping in 2016 (COT-free transactions).

Stakeholders affected

Deposit money banks, microfinance banks, switch, card issuance companies, and industry associations.

ANNEX II: SAMPLE INTERVIEW GUIDE

This interview guide is an excerpt of the guide used to interview microfinance banks during the study. Of note, these banks were asked questions on the National Financial Inclusion Strategy as well as each policy of focus.

We asked each of the other stakeholder groups a tailored subset of questions. For example, regulators were asked a slightly different set of questions focused on the policy formulation, dissemination, review, and feedback processes, as well as impressions on impact and implementation challenges.

Further, given time constraints—normally 45 to 80 minutes per interviewee—we did not address every sections in each of the interviews. We treated the written guide as an outline for discussion rather than a set list, with the exception of the overall questions on the interviewee’s organisation, the Financial Inclusion Strategy, policy awareness, and impact.

GENERAL PRESENTATION

OVERALL CONTEXT

EFinA, a financial sector development organisation that promotes financial inclusion in Nigeria, has selected Dalberg Global Development Advisors to conduct a study on the impact of a number of financial inclusion policies in Nigeria.

Between 2005 and 2013, the Central Bank of Nigeria (CBN) issued a set of policies aimed at enhancing financial inclusion by increasing access to affordable financial services in underserved markets (low income customer segments, BoP¹⁹, rural areas, etc.) These policies cover a number of areas, including [mention the relevant policies for the specific stakeholder interviewed].

STUDY OBJECTIVE AND FOCUS

The objective of the study is to better understand the impact of the policies on the supply-side actors of the financial services sector in Nigeria. In particular, the study will focus on actors’ awareness of and satisfaction with the policies, their experiences with policy implementation, and their estimations of policy results and other outcomes.

The ultimate objective of the study is to provide recommendations to regulatory bodies on how policies can be improved, both from a content and implementation perspective.

STUDY RESULTS

Results from the study—aggregate and confidential to the individual and institutions—will be used in EFinA’s reporting on financial inclusion in Nigeria as well as in discussion and our advocacy work with the Central Bank of Nigeria and other regulators.

¹⁹ Individuals living on less than USD 2 per day.

MICROFINANCE BANKS (MFBS)

Prior to the interview, we will conduct background research on the MFBS, where possible, focused on

- Targeting offers of product and services (including mobile money, non-interest banking services);
- Financial inclusion strategies and initiatives; and
- Target customers segments, geographic focus.

RELEVANT POLICIES

- Regulatory Framework for Mobile Payments Services (2009)
- Revised Microfinance Policy Framework (2011)
- Guidelines on Non-interest Window and Branch Operations of Conventional Banks and Other Financial Institutions (2011)
- POS Guidelines (2011)
- Cash-less Policy (2012) and
- Tiered KYC Regime (2013)
- Revised Guide to Bank Charges (2013)
- National Financial Literacy Framework (2012)
- Guidelines for the Regulation of Agent Banking and Agent Banking Relations (2013)

FINANCIAL INCLUSION STRATEGY QUESTIONS

Theme	Questions
Awareness	<ol style="list-style-type: none"> 1. Rate your awareness of the Financial Inclusion Strategy on a scale of 1 to 5 (1 being the lowest). 2. <i>Tease out reason(s) for the poor, average, or good rating</i>
Relevance	<ol style="list-style-type: none"> 3. Rate your perceived relevance of the Financial Inclusion Strategy on a scale of 1 to 5 (1 being the lowest) 4. Has the strategy's creation and its announcement spurred a financial inclusion focus in stakeholders' strategy and operations?
Satisfaction	<ol style="list-style-type: none"> 5. On a scale of 1-5, how would you rate your overall satisfaction with the strategy? 6. <i>Tease out reason(s) for the poor, average, or good rating</i>
Industry Association	<ol style="list-style-type: none"> 7. Has the Chartered Institute of Bankers of Nigeria played any role in fostering financial inclusions? 8. What role do you think the association of micro finance banks ought to play?

GENERAL QUESTIONS

Theme	Questions
Results/ outcomes	<p>9. Can you describe your customer segments? <i>(Probe for data on BoP customer/low-income customers, MSMEs/SMEs, geographic reach, etc.)</i></p> <p>10. What proportion of total deposit/saving/loan value do BoP customers represent?</p> <p>11. Have you witnessed growth in recent years <i>(number of accounts, deposit/saving/loan value)</i> in low-income customer segments? How does the development in your organisation compare to the industry?</p>
Importance of financial inclusion	<p>12. Can you describe any strategies in place to drive financial inclusion? <i>(Probe for evidence—financial literacy programs/services, specific KPIs, pricing schemes, etc.)</i></p>
Awareness	<p>13. On a scale of 1-5, please rate your awareness of the following policies:</p> <ul style="list-style-type: none"> a) Revised Microfinance Policy Framework (2011) b) Regulatory Framework for Mobile Payments Services (2009) c) Guidelines on Non-interest Window and Branch Operations of Conventional Banks and Other Financial Institutions (2011) d) Cash-less Policy & POS Guidelines (2012) e) Three-Tiered KYC Regime (2013) f) Revised Guide to Bank Charges (2013) g) National Financial Literacy Framework (2012) h) Guidelines for the Regulation of Agent Banking and Agent Banking Relations (2013)
Satisfaction	<p>Depending of which policies mentioned in previous question:</p> <p>14. On a scale of 1-5, how would you rate your overall satisfaction with the following policies?</p> <ul style="list-style-type: none"> a) Revised Microfinance Policy Framework (2011) b) Regulatory Framework for Mobile Payments Services (2009) c) Guidelines on Non-interest Window and Branch Operations of Conventional Banks and Other Financial Institutions (2011) d) Cash-less Policy & POS Guidelines (2012) e) Revised Guide to Bank Charges (2013) f) National Financial Literacy Framework (2012) g) Guidelines for the Regulation of Agent Banking and Agent Banking Relations (2013) <p>Please indicate which policies you would like to cover first in this conversation. <u>Depending on answer move to policy a, b, c, d, e, f, g—still seeking to cover all in the course of the interview</u></p>

Note: Following the overall questions, discussion around each policy does not follow the specific questions posed per policy, but does aim to probe in each of the following areas: policy formulation / content, capabilities, and results / outcomes.

Note 2: the policies are discussed in a logical sequence for the interviewee – driven by their focus/ experience and appetite, sometimes building on comments made earlier in the conversation. To make sure the most relevant policies per interviewee are discussed, that was started with (different for different groups). This meant they were not discussed in chronological order.

A. REVISED MICROFINANCE POLICY FRAMEWORK (2011)

Note for interviewer: The policy's main implication for MFBs relates to categorisation of banks (including capitalisation requirements), transformation path between categories, and ownership structure. In addition, the policy calls for MFBs to qualify for the deposit insurance scheme of the Nigeria Deposit Insurance Corporation.

Theme	Questions
Policy formulation/ content	<p>15. Are there elements in the framework that are missing/should be reviewed to encourage growth of microfinance? <i>[if 'no'—move to Question 17]</i></p> <p>16. What two/three things would you like to change in the framework?</p> <p>17. We would like your opinion on a number of specific policy areas:</p> <ul style="list-style-type: none"> - Is the current categorisation (unit/state/national) of MFBs and associated requirements (i.e., capitalisation, branches, etc.) adequate to drive growth in the sector? - Is the outlined transformation path (i.e., requirements for transition between categories) adequate to drive growth in the sector? - What are your views on the stipulated ownership structures of the policy? (i.e., prohibition from owning controlling interest in more than on MFB)
Capabilities	<p>18. Does your organisation have sufficient capabilities (i.e., data submission, skills/expertise for staff development programs, qualification for deposit insurance scheme, etc.) to implement the framework?</p> <p>19. Are there requirements in the framework that make it difficult for you to grow the organisation in a sustainable way?</p>
Results/ outcomes	<p>20. The framework lists a number of activities to be implemented by CBN, including a microfinance certification program, establishment of a microfinance development fund, and the promotion of financial literacy and consumer protection in collaboration with CSOs.</p> <ul style="list-style-type: none"> - To what extent are you aware of/exposed to these activities? - What is your view on the Government's progress in implementing the framework? <p>21. How would you describe the policy's impact? <i>(We want to know details and determine whether it is positive, negative, or neutral.)</i></p> <p>22. <i>If the impact is less than satisfactory—</i>What changes are necessary to improve the impact of the policy?</p>

B. REGULATORY FRAMEWORK FOR MOBILE PAYMENTS SERVICES (2009)

Note for interviewer: The policy paved the way for mobile money operations. MFBs involved in, or considering getting involved in mobile payments will be familiar with the framework.

Theme	Questions
Policy formulation/content	<p><u>For MFBs involved/considering getting involved in mobile money operations:</u></p> <p>23. Are there elements in the framework that are missing/should be reviewed to encourage growth of mobile payments? <u>[if 'no'—move to Question 25]</u></p> <p>24. What two/three things would you like to change in the framework?</p> <p>25. We would like your opinion on a number of specific policy areas:</p> <ul style="list-style-type: none"> - Are the three suggested mobile payment models (bank-led/bank-focused/non-bank-led) the options best suited to drive growth of mobile payments? - Are the roles and responsibilities described clearly enough, allowing your organisation to 'play its part' in mobile payment services? - Are the regulations around anti-money laundering sufficient to ensure transparency and security in mobile payment services? - Does the framework capture adequate core infrastructure to drive growth of mobile payments?
Capabilities	<p>26. Does your organisation have sufficient capabilities (systems, skills/expertise) to implement the framework? If not, what are you lacking?</p> <p><u>For MFBs involved in mobile money operations:</u></p> <p>27. In particular, we have understood that a number of specific challenges may exist for stakeholders. We would like your specific opinion on them. Explicitly, what challenges have you experienced in policy implementation with regard to</p> <ul style="list-style-type: none"> - Infrastructure—how/to what extent? - Security—how/to what extent? - Technology—how/to what extent? - Other <p>28. Have organisational re-arrangements (including systems, technologies, human resources, etc.) been introduced to implement the framework?</p> <p>29. What role can the Government play in supporting implementation?</p>
Results/outcomes	<p>30. How would you describe the policy's impact? <i>(We want to know details and determine whether it is positive, negative, or neutral.)</i></p> <p>31. <i>If the impact is less than satisfactory</i>—What changes are necessary to improve the impact of the policy?</p>

C. GUIDELINES ON NON-INTEREST WINDOW AND BRANCH OPERATIONS OF CONVENTIONAL BANKS AND OTHER FINANCIAL INSTITUTIONS (2011)

Note for interviewer: The policy outlines requirements for non-interest banking operators offering Islamic financial services. A conventional financial institution may offer to sell non-interest banking products/services through subsidiaries, windows, and branches only. The subsidiary/window/branch is not allowed to sell other products/services non-compliant with non-interest banking principles. All licensed non-interest banking operators shall have an internal review mechanism that ensures compliance with the principles of the banking model. An advisory committee of experts (ACE), shall also be part of the governance structure.

Theme	Questions
Results/ outcomes	<p>32. Do you offer non-interest banking services? (<i>probe for data</i>)</p> <p>If answer is yes:</p> <p>33. Have you witnessed an increase in demand for non-interest banking services in recent years?</p>
Policy formulation/ content	<p>34. Are there elements in the guidelines that are missing/should be reviewed in order to encourage growth of non-interest banking? [<i>if 'no'—move to Question 37</i>]</p> <p>35. Do the guidelines bring enough clarity to drive growth of non-interest banking? If not, what are the two/three things you would like to change in the guidelines?</p> <p>36. The guidelines cover non-interest banking compliant with non-interest banking principles. Would your organisation be interested in offering non-interest banking based on other principles?</p> <p><i>Potential follow up question:</i> Is there a need for clearer regulation around such banking services?</p>
Capabilities	<p><u>If the bank offers non-interest financial services:</u></p> <p>37. Does your organisation have sufficient capabilities (systems, skills/expertise) to implement the guidelines? If not, what are you lacking?</p> <p>38. To what extent have organisational re-arrangements been introduced to meet the requirements of the guidelines? (i.e., internal review systems, advisory committee of experts, separate branch/window, etc.)</p>
Results/ outcomes	<p>39. How would you describe the guidelines' impact? (<i>We want to know details and determine whether it is positive, negative, or neutral.</i>)</p> <p>40. <i>If the impact is less than satisfactory</i>—What changes are necessary to improve the impact?</p>

D. CASH-LESS POLICY & POS GUIDELINES (2012)

Note to interviewer: The Cash-less Policy aims to drive the development and modernisation of the payment system, reduce the cost of banking services, drive financial inclusion, and improve the effectiveness of monetary policy. In particular, the policy requires a daily total limit of NGN 500,000 (individual) and NGN 3,000,000 (corporation) on free cash withdrawals. Cash withdrawals above the limits will be charged a service fee (2-5%). The policy was implemented in Lagos in January 2012 as a pilot. The POS guideline caps the maximum merchant service commission at 1.25% and limits the role of connecting and maintaining POS devices only to licensed Payment Terminal Service Providers (PTSPs).

Theme	Questions
Policy formulation /content	<p><u>Questions on both policies (depending on level of insights):</u></p> <p>41. Are there elements in the policies that are missing/should be reviewed to encourage growth of electronic payments? [<i>if 'no'—move to Question 43</i>]</p> <p>42. What two/three things would you like to change in the policies?</p> <p>43. We would like to get your opinion on two specific policy areas:</p>

	<p><u>Regarding Cash-less Policy:</u></p> <ul style="list-style-type: none"> - Is the daily total limit of free cash withdrawal (NGN 500,000 and NGN 3,000,000) and associated fees for overcharge (2-5%) adequate to drive electronic payments? <p><u>Regarding POS guidelines</u></p> <ul style="list-style-type: none"> - Is the maximum fee charged at merchant (i.e., 1.25%) adequate to drive growth of card payments?
Capabilities	N/A
Results/ outcomes	<p>44. Following the launch of the policies, have you witnessed an increase in electronic payments (card, mobile payments) and/or reductions in cash withdrawals?</p> <p>45. One of CBN's stated objectives is to increase awareness of electronic payments through market education. What is your view on CBN's progress in this area?</p> <p>46. Has the policy had any other kind of impact? (<i>We want to know details and determine whether it is positive, negative, or neutral.</i>)</p> <p>47. <i>If the impact is less than satisfactory</i>—What changes are necessary to improve the impact of the policy?</p>

E. TIERED KYC REGIME (2013)

Note for interviewer: The main implication of the policy for MFBs relates to norms around deposit amounts, transaction limitations (for mobile banking), and customer identification requirements. Since the policy was launched in 2013, direct results and impacts are likely to be limited.

Theme	Questions
Policy formulation /content	<p>48. Are there elements in the policy that are missing/should be reviewed to encourage growth of mobile payments? <i>[if 'no'—move to Question 50]</i></p> <p>49. What two/three things would you like to change in the policy?</p> <p>50. We would like your opinion on a number of specific policy areas:</p> <ul style="list-style-type: none"> - Do the amount/threshold limitations for low/medium/high-value accounts reflect market realities? - Are the customer identification requirements adequate to enhance financial services access among low-income/BoP customers? <p><u>If bank offers mobile payment services:</u></p> <ul style="list-style-type: none"> - Are the transaction limitations adequate to drive growth of mobile payment? - There is a contradictory requirement in the KYC regulation and the mobile payment regulation around customer identification documents. The mobile payment regulation requires name and phone number for low-value accounts while the KYC regime requires passport photo, name, place of birth, gender, address, and phone number. Which of the regulations are you complying with? <p>If compliance with the mobile payment regulation:</p> <ul style="list-style-type: none"> - How would compliance with the KYC regime affect your business?
Capabilities	<p>51. Does your organisation have sufficient capabilities (systems, resources) to meet the policy requirements? (For example systems to track transaction/deposit volumes per customer and provide real time feedback; systems to crosscheck client ID information</p>

	prior to account opening, etc.)
Results/ outcomes	<p>52. Has the policy helped / will the policy help you grow your business? How/why?</p> <p>53. Your customers are largely representative of what tier?</p> <p>54. Has the policy helped / will the policy help increase the proportion of low-income customers? (<i>probe for supporting data</i>)</p> <p><i>Potential follow-up question:</i></p> <p>55. To what extent are newly opened accounts active/inactive? (<i>Hypothesis—the regulation has driven a high number of inactive accounts.</i>)</p> <p><i>If bank offers mobile payment services:</i></p> <p>56. Has the policy helped / will the policy help increase the number and value of transactions? (<i>probe for supporting data</i>)</p> <p>57. Has the policy had any other kind of impact? (<i>We want to know details and determine whether it is positive, negative, or neutral</i>)</p> <p>58. <i>If the impact is less than satisfactory—What changes are necessary to improve the impact of the policy?</i></p>

F. REVISED GUIDE TO BANK CHARGES (2013)

Not applicable—policy has effect on deposit money banks and was included in the interview guide for DMBs. Included here for information only (although some MFBs did volunteer to offer their perspective unprompted).

Note for interviewer: The banks are directly affected by the stipulated charges, including interest on deposits, commission on turn-over, fees around electronic banking, etc.

Theme	Questions
Policy formulation /content	<p>59. Are there outstanding elements (i.e., charges) in the policy that are missing/need to be reviewed to encourage sustainable growth in the financial services sector/related sub-sectors (i.e., electronic banking, etc.)?</p> <p>60. Do the stipulated charges in the guide reflect market realities?</p>
Capabilities	N/A
Results/ outcomes	<p>61. Have the stipulated charges had / will they have an impact on the profitability/growth of your organisation? How/why?</p> <p>62. Following the launch and implementation of the policy, have you witnessed increase/decrease in specific services/products? (i.e., card payments, etc.)</p> <p>63. If there are any, please state other forms of impact the policy has had on your operations.</p>

G. NATIONAL FINANCIAL LITERACY FRAMEWORK (2012)

Note for interviewer: This high-level framework places no direct requirements on MFBs. It makes reference to financial service providers, encouraging provision of structured training programs for staff members. Other responsibilities (i.e., no direct requirements) of financial institutions include:

collaborating with CBN/other stakeholders on implementation of financial literacy initiatives; designing in-house training and capacity building for staff, educating consumers on products and services, engaging in consumer awareness programs through media, and providing capacity building to MSMEs.

The policy outlines a number of responsibilities/activities to be undertaken by CBN and other government agencies. For example, CBN should collaborate with financial institutions on financial literacy initiatives, conduct a national stakeholder workshop on financial literacy, establish a steering committee, etc. Awareness of this newly launched policy is likely to be very low.

Theme	Questions
Policy formulation /content	<p>64. Are there elements in the policy that are missing/should be reviewed to enhance financial literacy?</p> <p>65. What two/three things would you like to change in the framework?</p>
Capabilities	<p>66. Does your organisation have sufficient capabilities (resources, skills/expertise) to implement the framework? <i>(see above listed responsibilities)</i></p>
Results/ outcomes	<p>67. Has the policy helped / will the policy help enhance financial literacy? Why/why not?</p> <p>68. To what extent is financial literacy reflected in your organisation <i>(probe for evidence— in-house trainings, programs/education initiatives, media campaigns, etc.)</i></p> <p>69. To what extent are you aware of / exposed to CBN and other government agencies' financial literacy initiatives? <i>(give examples of list above)</i></p> <p>70. How would you describe the policy's overall/potential impact? <i>(We want to know details and determine whether it is positive, negative, or neutral)</i></p> <p>71. <i>If the impact is less than satisfactory—</i>What changes are necessary to improve the impact of the policy?</p>

H. GUIDELINES FOR THE REGULATION OF AGENT BANKING AND AGENT BANKING RELATIONS (2013)

Note for interviewer: The policy provides extensive detail on requirements for agent banking (i.e., POS terminals, mobile banking), outlining documentary requirements for agent registration with CBN, modalities of the agent banking relationships, and the roles and responsibilities of involved parties. In particular, it prescribes a non-exclusivity relationship between the service provider and the agent. The policy is more explicit on the responsibilities of the financial institution toward the agent and less so on what is required of the agent.

Theme	Questions
Policy formulation /content	<p>72. Are there elements in the guideline that are missing/should be reviewed to encourage growth of agent banking? <i>[if 'no'—move to Question 74]</i></p> <p>73. What two/three things would you like to change in the framework?</p> <p>We would like your opinion on a number of specific policy areas:</p> <p>74. Is the stipulated agent structure (super/sub/and sole-agent) adequate to drive growth of agent banking?</p>

	75. Does the non-exclusivity agreement between the agent and the financial institution help drive or inhibit growth of mobile payments? (probe for impact on low-income customers)
Willingness to participate/ Capabilities	<p>76. Does your organisation have sufficient capabilities (systems, skills/expertise) to meet the minimum requirements (technological, supervision/reporting)?</p> <p>77. What do you think about agent banking relationships between the deposit money banks and the microfinance banks?</p> <p>78. Will your organisation be willing to act as an agent? (<i>tease out reasons for yes/no answer</i>)</p> <p><u>For MFBs implementing agent banking model:</u></p> <p>79. In particular, we have understood that a number of specific challenges may exist for stakeholders. We would like your specific opinion on them. Explicitly, what challenges have you experienced in policy implementation with regard to:</p> <ul style="list-style-type: none"> - Infrastructure—how/to what extent? - Security—how/to what extent? - Technology—how/to what extent? - Other <p>80. Have organisational re-arrangements (incl. systems, technologies, human resources, etc.) been introduced to implement the framework?</p> <p>81. What role can the Government play in supporting implementation?</p>
Results/ outcomes	<p>82. Has the policy facilitated or inhibited / will the policy facilitate or inhibit growth of agent banking? Why/why not?</p> <p>83. Has the policy helped / will the policy help you grow your business? How/why?</p> <ul style="list-style-type: none"> - Has the policy helped / will the policy help increase proportion of low-income/BoP customers? (<i>Probe for supporting data, number of accounts, geographic split, etc.</i>) - Has the policy helped / will the policy help increase the number and value of transactions? - Has the policy impacted / will the policy impact your service offering?

I. PARTNERSHIPS

If the existence and motivations for partnerships have not already been established in the course of the interview, ask the following:

- 84. Have you formed any new partnerships (products or service wise) in pursuit of financial inclusion?
- 85. Tease out reasons/motivations for forming the partnerships (or not)
- 86. Determine challenges/benefits involved

ANNEX III: ORGANISATIONS INTERVIEWED

Institution Name	Stakeholder Group
Accion Microfinance Bank	Microfinance Bank
Advans La Fayette Microfinance Bank	Microfinance Bank
Ahmadu Bello University Microfinance Bank	Microfinance Bank
Association of Licensed Mobile Payment Operators	Industry Association
Azsa MFB	Microfinance Bank
CBN (Financial Inclusion Secretariat)	Regulator
Chams Mobile	Mobile Money Operator
Chartered Institute of Bankers Nigeria	Industry Association
Citiserive	PTSP & Agent Network Aggregator
Diamond Bank	Deposit Money Bank
Eartholeum	Mobile Money Operator
Ecobank	Deposit Money Bank
Ecobank Mobile Money	Mobile Money Operator
Etisalat	Mobile Network Operator
eTranzact Pocket Moni	Mobile Money Operator
FCMB	Deposit Money Bank
Fidelity Bank	Deposit Money Bank
First Bank	Deposit Money Bank
Pridar Systems (Firstmonie)	Mobile Money Operator
Fortis MFB	Microfinance Bank
Fortis Mobile Money	Mobile Money Operator
Globacom	Mobile Network Operator
Grooming People for Better Livelihood Centre	Microfinance Institution
GT Bank	Deposit Money Bank
Hasal Microfinance Bank	Microfinance Bank
Heritage Bank	Deposit Money Bank
Interswitch	Switch & Card Issuance Company
Jaiz Bank	Regional Non-Interest Finance Institution
LAPO MFB	Microfinance Bank
Microleverage	Agent Network Aggregator
MiMo	Mobile Money Operator
MTN	Mobile Network Operator
Netop	PTSP
NIBSS	Switch
One Network	Agent Network Aggregator
Pagatech	Mobile Money Operator
PageCredit	Microfinance Bank
Skye Bank	Deposit Money Bank
Sludba	Agent Network Aggregator
Stanbic IBTC Bank	Deposit Money Bank
Stanbic IBTC Mobile Money	Mobile Money Operator

Standard Chartered Bank	Deposit Money Bank
Sterling Bank	Deposit Money Bank
Teasy Mobile	Mobile Money Operator
Trustfund Microfinance Bank	Microfinance Bank
UBA	Deposit Money Bank
Unified Payments/ValuCard	Card Issuance Company
Union Bank	Deposit Money Bank
Visa	Card Issuance Company
Visafone	Mobile Network Operator
WEMA Bank	Deposit Money Bank
Wetlands Microfinance Bank	Microfinance Bank
Zenith Bank	Deposit Money Bank

ANNEX IV: BIBLIOGRAPHY

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