THE LANDSCAPE OF FINANCIAL INCLUSION AND MICROFINANCE IN NIGERIA

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1. About EFInA

Enhancing Financial Innovation & Access (EFInA) is a financial sector development organization that promotes financial inclusion in Nigeria. Established in late 2007, EFInA's vision is to be the leader in facilitating the emergence of an all-inclusive and growth-promoting financial system. EFInA is funded by the UK Government's Department for International Development (DFID) and the Bill & Melinda Gates Foundation. EFInA's holistic approach to expanding access to financial services for all, especially for low income households is based on four pillars: **Research, Innovation, Advocacy and Capacity Building**.

2. Background

EFInA defines financial inclusion as the provision of a broad range of high quality financial products, such as savings, credit, insurance, payments and pensions, which are relevant, appropriate and affordable for the entire adult population and especially for the low income segment. An inclusive financial sector is characterised by the diversity of financial service providers, the level of competition between them and the regulatory environment that ensures the integrity of the financial sector and access to financial services for all.

Through research, EFInA provides credible market information on the Nigerian financial sector and the low income population. Our flagship research tool is the EFInA Access to Financial Services in Nigeria survey. The survey is nationwide and has been conducted in 2008, 2010, 2012 and 2014. The EFInA Access to Financial Services in Nigeria survey covers over 20,000 consumers and provides: relevant and reliable data on the demand for and usage of a range of financial products (formal and informal), input to evidence-based financial inclusion policies & reform, credible benchmarks & indicators for financial access, and defines and quantifies the market opportunity for the low income segment.

Evidence worldwide shows that access to financial services contributes to both economic growth and wealth creation and is therefore a key component for tackling the poverty trap in Nigeria. Access to affordable, safe and reliable financial services provides the necessary lubricant for economic growth and contributes to poverty reduction. Billions of Naira circulate through the informal sector which could be a source of resource mobilisation resulting in a positive impact on the country's economic growth and development. The EFInA Access to Financial Services in Nigeria 2014 survey revealed that 25.5 million adults save at home; if for example, just 50.0% of these adults were to save ₦1,000 per month in the formal sector, then up to ₦153 billion could be mobilised annually, this indicates there is a significantly large un-tapped market for formal savings products.

What does this mean for Microfinance in Nigeria? How can Microfinance Banks help to ensure that the Central Bank of Nigeria's target to decrease the proportion of Nigerians that are financially excluded to 20% is achieved by 2020[1]? The vision of the Central Bank of Nigeria (CBN) is to have an effective and sustainable microfinance sub-sector that provides access to a range of financial and non-financial services to low income earners and vulnerable groups. In 2014, EFInA carried out an

[1] As stated in the National Financial Inclusion Strategy

impact assessment study of key policies (which included the Revised Microfinance Framework for Nigeria, 2011) that have been enacted to deepen financial inclusion in Nigeria. The findings of the assessment revealed that there were still challenges that suggest that additional refinements to the Framework may be required in order to achieve a significant uptake and usage of microfinance products/services amongst financially excluded Nigerians. Some of the challenges faced by the microfinance banks interviewed under the existing Framework are listed below[2].

Access to affordable capital

Growing a banking business requires expanding capital, having a diversified portfolio of products, and finding capital with a matching diversified tenure. The microfinance banks interviewed highlighted financial constraints as being the major obstacle to their growth/expansion and advancement of the financial inclusion agenda.

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

The microfinance banks that were interviewed felt that their lack of influence in policy shaping led to unfavourable regulations such as requirements in personnel experience; provision requirements for non-performing loans and portfolio at risk; and high investment requirements for management information systems/data tracking for Unit MFBs.

Difficulties in forming beneficial partnerships

Some of the microfinance banks interviewed were open to considering other avenues for expansion that will make them more accessible to the unbanked and under-banked population, while also presenting opportunities for generating more economic value. The MFBs felt that they could act as bank agents and help expand the footprint of DMBs especially in the rural areas. However, establishing these partnerships has been difficult.

3. Demographic Profile of Nigerian Adults

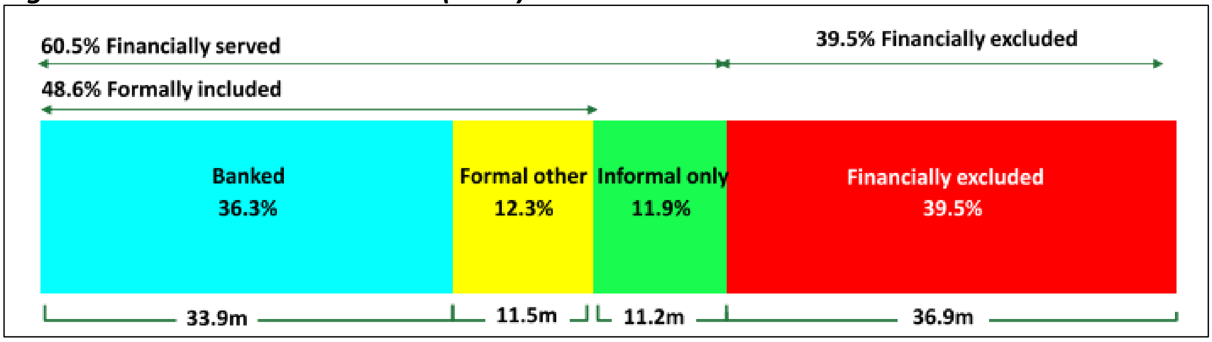
The EFInA Access to Financial Services in Nigeria 2014 survey is based on a total adult population of 93.5 million adults out of which: 59.8 million (63.9%) live in rural areas; 50.0 million (53.5%) are female; 49.4 million (52.8%) are 33 years old and below; and 21.5 million (23.0%) have no formal education. Subsistence/commercial farming is the main source of income for 20.0 million adults (21.3%). Income levels continue to remain low for Nigerians as 36.2 million (39.4%) adults earn ₦20,000 or less. Only 3.1 million (3.4%) adults earn more than ₦70,000 per month. There are 11.8 million (12.8%) adults that do not receive any income.

[2] The full report can be downloaded from the EFInA website at the following link: http://www.efina.org.ng/our-work/research/other-research/assessing-the-impact-of-financial-inclusion-policies-on-deepening-financial-inclusion-in-nigeria-supply-side-perspectives-nov-2014/

4. Landscape of Financial Access in Nigeria in 2014

In terms of financial access, 45.4 million adults (48.6% of total adults) are formally included; whilst 36.9 million adults (39.5% of total adults) are financially excluded.

Figure 1: Financial Access Strand (2014)



Source: EFInA Access to Financial Services in Nigeria 2014 survey

The definitions of the four strands[3] in the chart above can be described as follows:

Banked: all adults who have access (both direct and indirect) to or use a deposit money bank in addition to having/using a traditional banking product, including ATM card, credit card, savings account, current account, fixed deposit account, mortgage, overdraft, loan from a bank, or non-interest (Islamic) banking product.

Formal other: all adults who have access (both direct and indirect) to or use other formal institutions and financial products not supplied by deposit money banks, including Insurance companies, microfinance banks, pension schemes or shares. It also includes remittances (through formal channels).

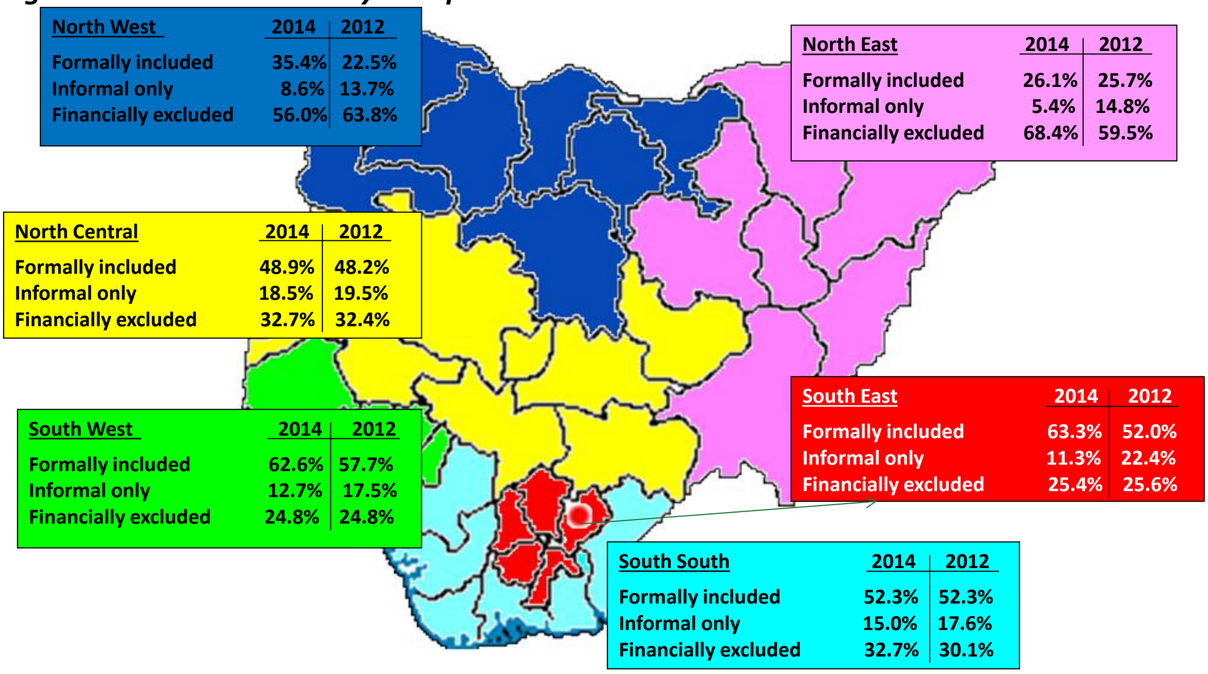
Informal only: all adults who do not have any banked or formal other products, but have access to or use only informal services and products. This includes savings clubs/pools, esusu, ajo, or moneylenders; as well as remittances (through informal channels such as via a transport service or recharge card).

Financially excluded: all adults not in the banked, formal other or informal only categories, even though the person may be using or have access to any of the following: loan/gift from friends or family and loan from employers, as well as remittances via a friend/family member.

[3] These four strands are mutually exclusive

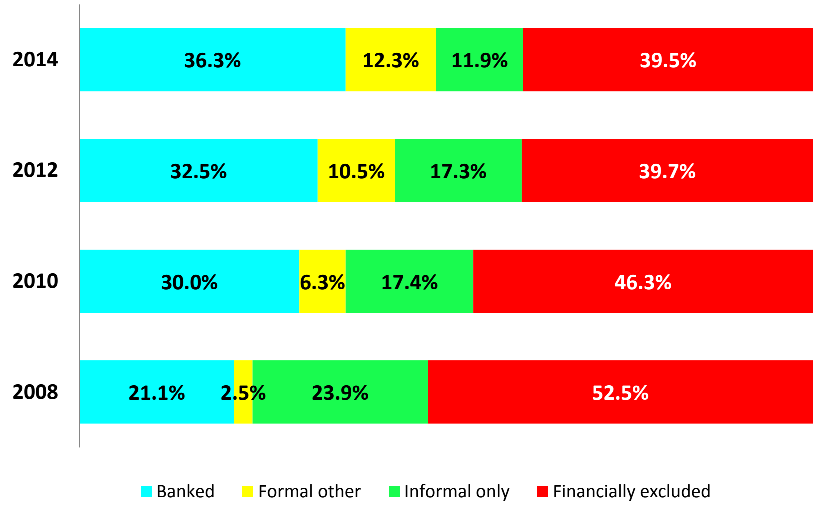
The EFInA Access to Financial Services in Nigeria 2014 survey reveals that access to financial services varies in the different geopolitical zones. The North East and North West have the highest percentage of financially excluded adults. In the North West, the percentage of financially excluded adults declined from 63.8% in 2012 to 56.0% in 2014. However, in the North East, the financial exclusion rate increased from 59.5% in 2012 to 68.4% in 2014.

Figure 2: Financial Access by Geo-political Zones



Source: EFInA Access to Financial Services in Nigeria 2012/2014 surveys

Figure 3: Change in the Access Strand from 2008 to 2014[4]



KEY COMMENTS

From 2008 to 2014:

- The proportion of adults that are formally included increased from 23.6% to 48.6%, which is an increase of **25.0 million**
- The proportion of adults that are financially served increased from 47.5% to 60.5%, which is an increase of **15.5 million**
- The number of adults that are financially excluded decreased by **8.5 million**

Source: EFInA Access to Financial Services in Nigeria 2008/2010/2012/2014 surveys

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[4] 2010 and 2012 figures include remittances (formal other and informal only),whereas 2008 does not

5. Key Findings on the Microfinance Sub-sector in Nigeria

The proposed target for microfinance bank branches as stated in the National Financial Inclusion Strategy is that by 2020, there should be 5 branches per 100,000 adults.

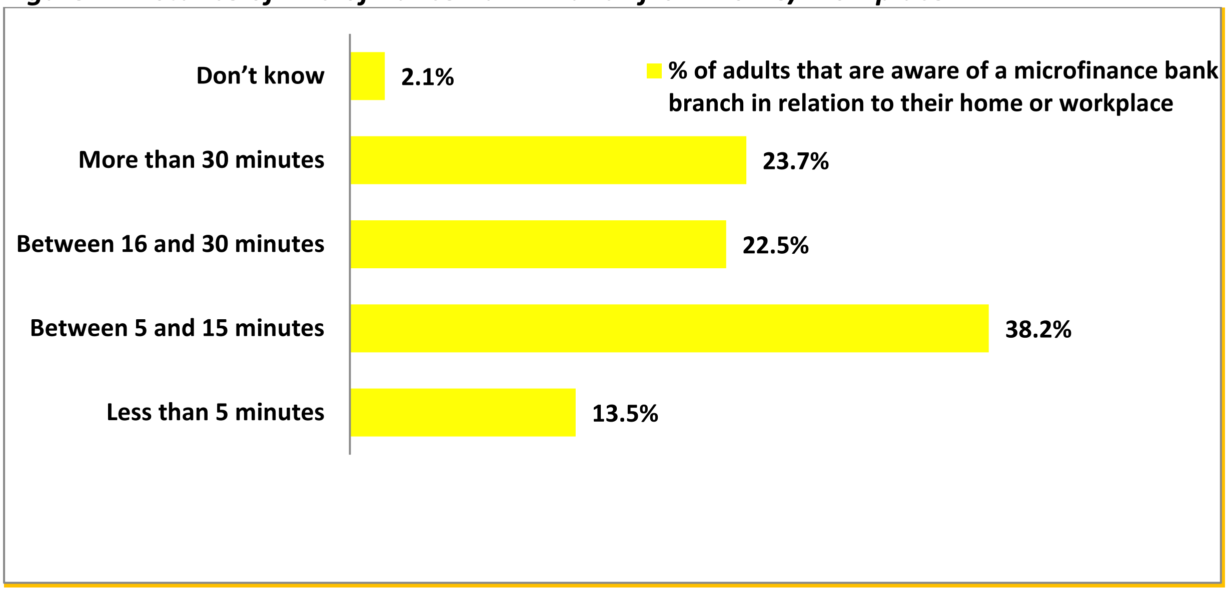
Awareness of microfinance

The EFInA Access to Financial Services in Nigeria 2014 survey reveals that in terms of familiarity with term 'microfinance' only 9.1 million adults (9.8% of total adults) can explain what the term means; 30.4 million adults (32.6% of total adults) are familiar with the term; whilst 53.7 million adults (57.6% of total adults) are not familiar with the term.

In addition, 69.1 million adults (73.9% of total adults) do not know where the nearest microfinance bank is situated. Only 24.4 million adults (26.1% of total adults) are aware of where the nearest microfinance bank is located (home/workplace).

This reveals that microfinance banks need to undertake extensive awareness campaigns to educate people, especially the low income on the benefits of microfinance and the location of the their nearest microfinance branch.

Figure 4: Distance of Microfinance Bank Branch from Home/Workplace



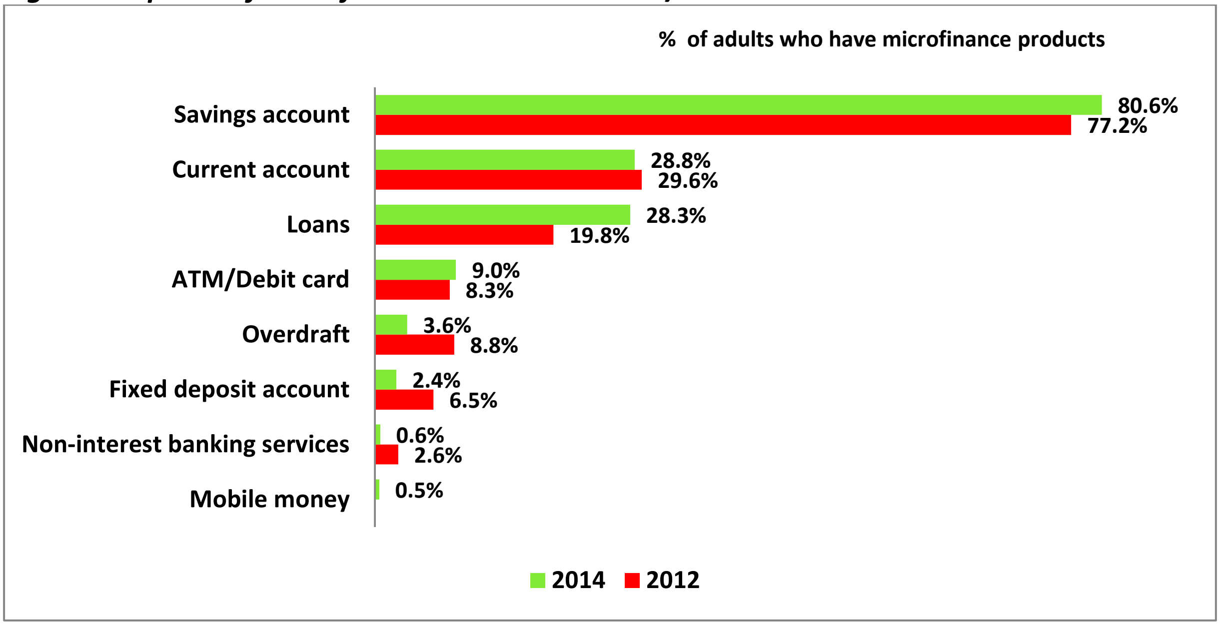
Source: EFInA Access to Financial Services in Nigeria 2014 survey

USERS OF MICROFINANCE PRODUCTS

Uptake of microfinance products

According to the EFInA Access to Financial Services in Nigeria 2014 survey, 2.6 million adults (2.8% of total adults) have a microfinance bank account, of which 53.9% are male and 46.1% are female. The most commonly used microfinance product is a savings account; 80.6% of adults who have a microfinance bank product, have a savings account.

Figure 5: Uptake of Microfinance Products in 2012/2014

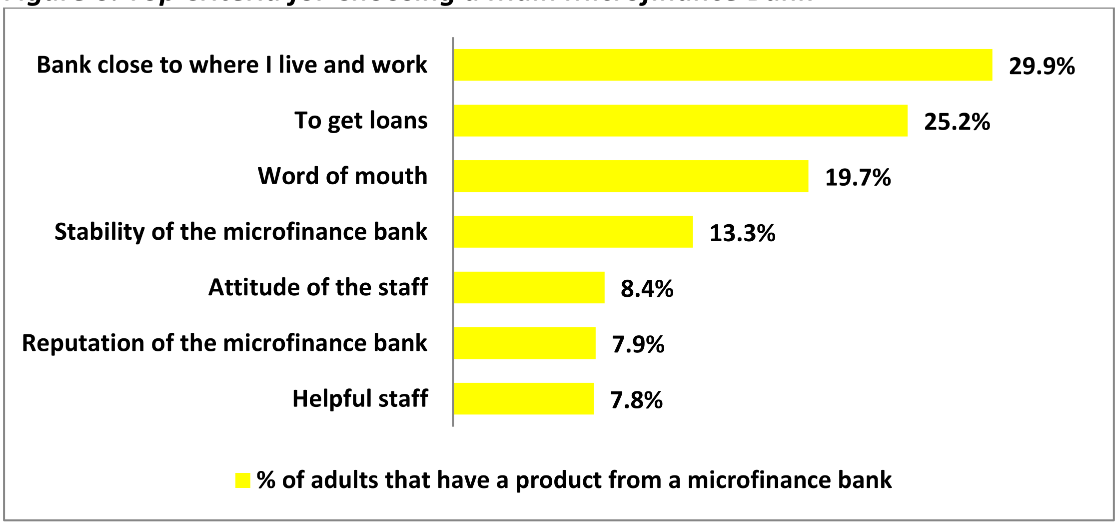


Source: EFInA Access to Financial Services in Nigeria 2012/2014 survey

Criteria for choosing a microfinance bank

Of the 2.6 million adults that have a microfinance bank account, the top three criteria for choosing a microfinance bank are proximity of the microfinance branch to their home/workplace (29.9%), getting a loan (25.2%), and word of mouth (19.7%).

Figure 6: Top Criteria for Choosing a Main Microfinance Bank



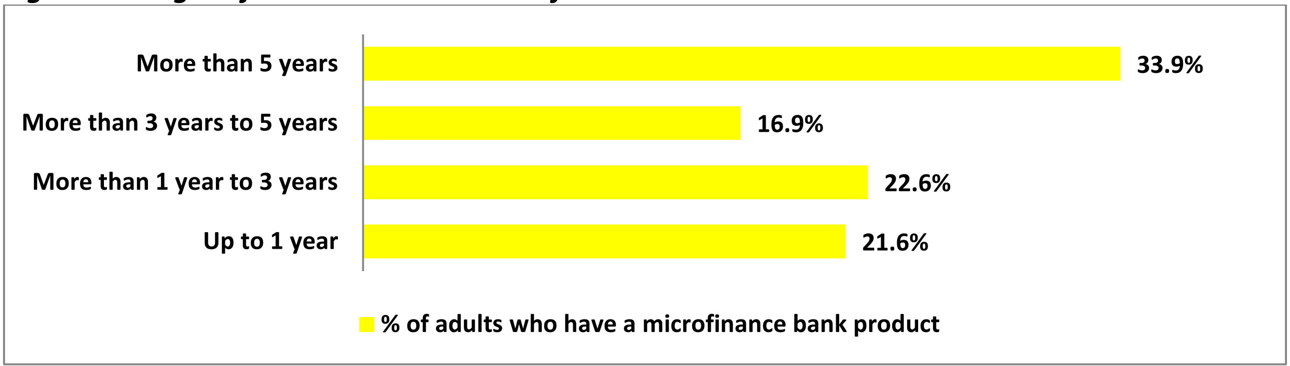
Source: EFInA Access to Financial Services in Nigeria 2014 survey

Of the 0.8 million adults that got loans from a microfinance bank, 0.2 million adults (26.5% of microfinance loan recipients) have group loans, while 0.6 million adults (70.0% of microfinance loan recipients) have individual loans. Only a meagre 3.5% of microfinance loan recipients have a combination of group and individual loans.

Loyalty

In terms of loyalty towards microfinance banks, 33.9% of those who have a microfinance bank account have been with their microfinance bank for more than 5 years (this includes the period when microfinance banks were called community banks), whilst 16.9% of those who have a microfinance bank account have been with their microfinance bank for more than 3 years but less than 5 years.

Figure 7: Length of Time with Main Microfinance Bank

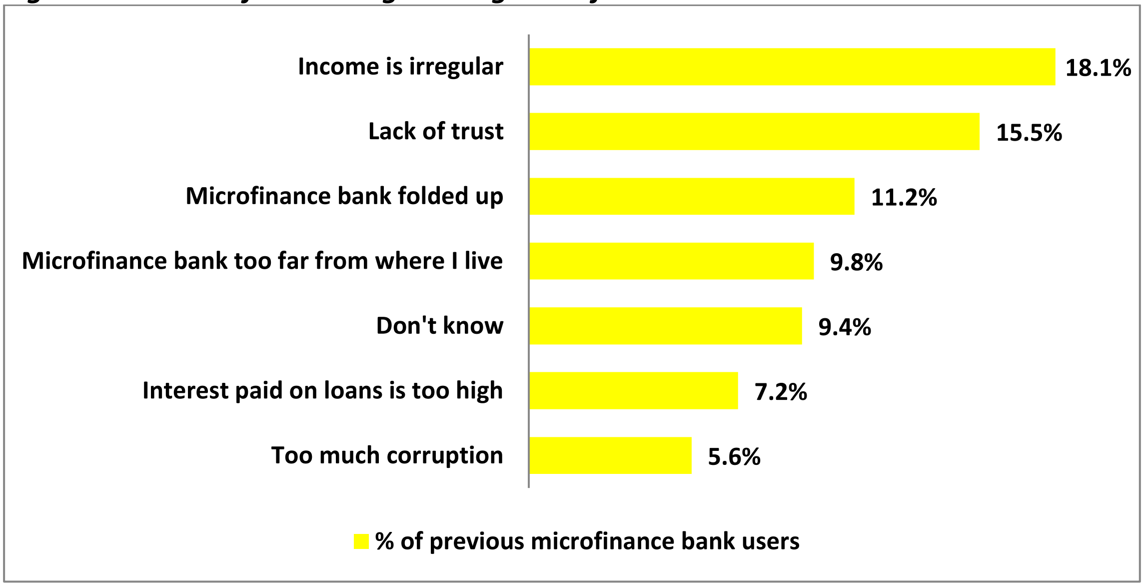


Source: EFInA Access to Financial Services in Nigeria 2014 survey

THOSE THAT PREVIOUSLY HAD A MICROFINANCE BANK ACCOUNT

According to the EFInA Access to Financial Services in Nigeria 2012/2014 surveys, the number of microfinance bank users dropped from 4.6 million in 2012 to 2.6 million in 2014. The top 3 reasons that influenced the lapsed microfinance bank users were irregularity of income, lack of trust and microfinance banks closing down.

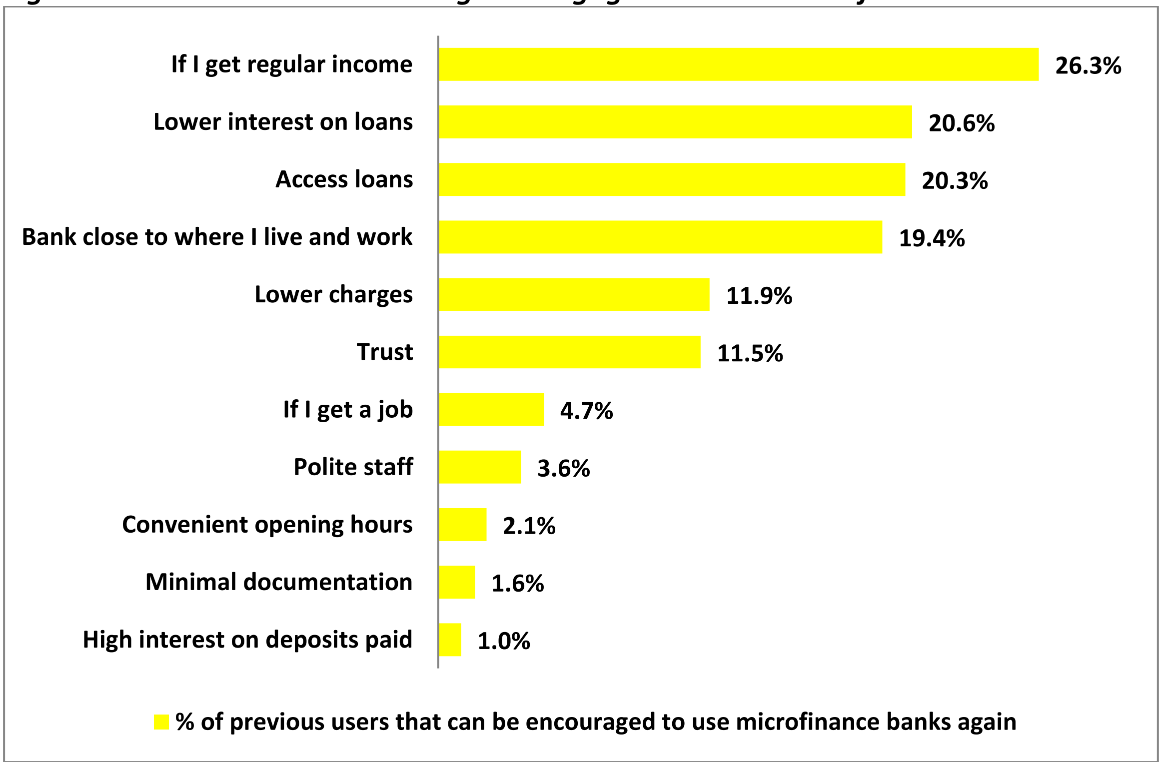
Figure 8: Reasons for No Longer Using Microfinance Banks



Source: EFInA Access to Financial Services in Nigeria 2014 survey

48.4% of the 2.0 million previous users of microfinance banks stated that they could be encouraged to re-engage with microfinance banks again. The top 3 factors that would encourage previous microfinance bank users to consider using microfinance banks again are regular income, lower interest rates on loans and accessibility to loans.

Figure 9: Factors that will Encourage Re-engagement with Microfinance Banks



Source: EFInA Access to Financial Services in Nigeria 2014 survey

EFInA also conducted Focus Group Discussions (FGDs) in February 2015[5] (post completion of the Access to Financial Services in Nigeria 2014 survey) in Oyo State (because that was the State with the highest dropout rates) to gain a better understanding of the reasons for the decline in the number of users of microfinance banks. The discussions revealed that participants stopped using microfinance banks due to stringent repayment terms and the closure of microfinance banks as depicted by the quotes below.

> *"They do not do well, they are harsh and hard they are not reasonable when you cannot pay them their money on the set day. Also, I get afraid that they may fold up at any time and the money one has there would be lost, that could cause a person to get sick"*
>
> *"It is for the same reason. Repaying back the loan with the conditions is hard. Things in Nigeria do not go in a predictable way. When you collect the loan there may not be a problem but when you have to repay, there may be a problem. And also they folded up"*
> **Female participants, 46 – 55 years old, SEC – DE, Ibadan**

The FGD participants also expressed mixed feelings with regards to using microfinance banks again. On one hand, there were participants that expressed an interest in using microfinance again if certain conditions such as lower interest on loans, less restrictive and flexible repayment terms and better customer service are met.

> *"When the interest is not too much the people dealing with very small business would be able to access the loan"*
>
> *"They should erase the weekly payment, monthly would be okay"*
>
> *"They should also stop disgracing people"*
> **Female participants, 46 – 55 years old, SEC – DE, Ibadan**

On the other hand, those that were apprehensive appeared to be motivated by mistrust of the microfinance banks and the unpredictability of them not folding up as expressed below.

> *"In as much as they try I cannot be assured they would not close down again… A number of banks closed down in the recent past and these are even banks with higher capital than the microfinance banks, so I cannot be sure that they would not close down"*
> **Mixed gender participants, 34 – 45 years old, SEC – DE, Ibadan**

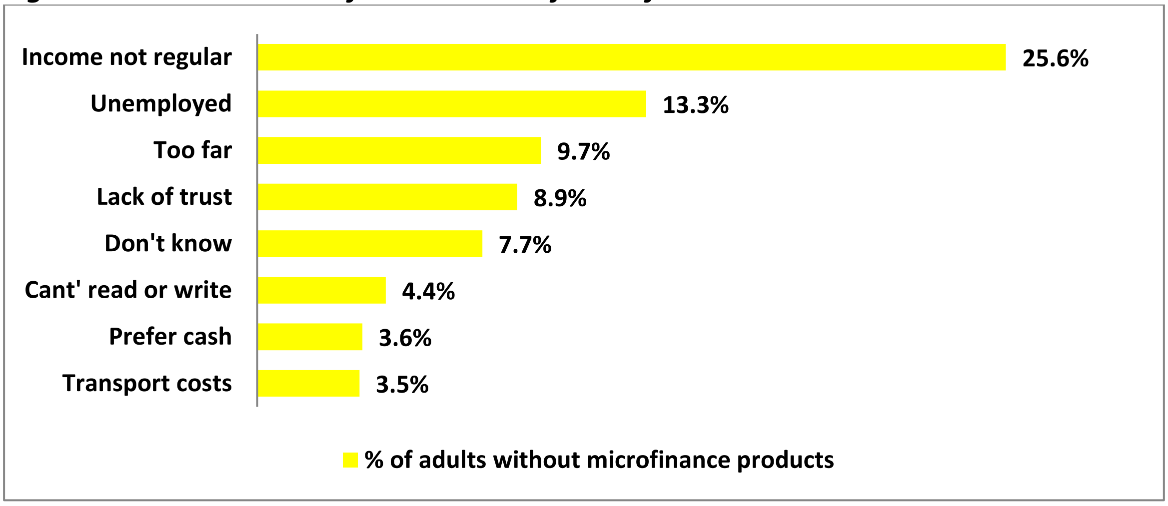
[5] Key findings to be published in March 2015

NON USERS OF MICROFINANCE BANKS

Barriers to access for microfinance banks

88.6 million adults have never had a microfinance bank account.The top three barriers for not having a microfinance bank account are irregular income (25.6%), unemployment (13.3%), and proximity (9.7%).

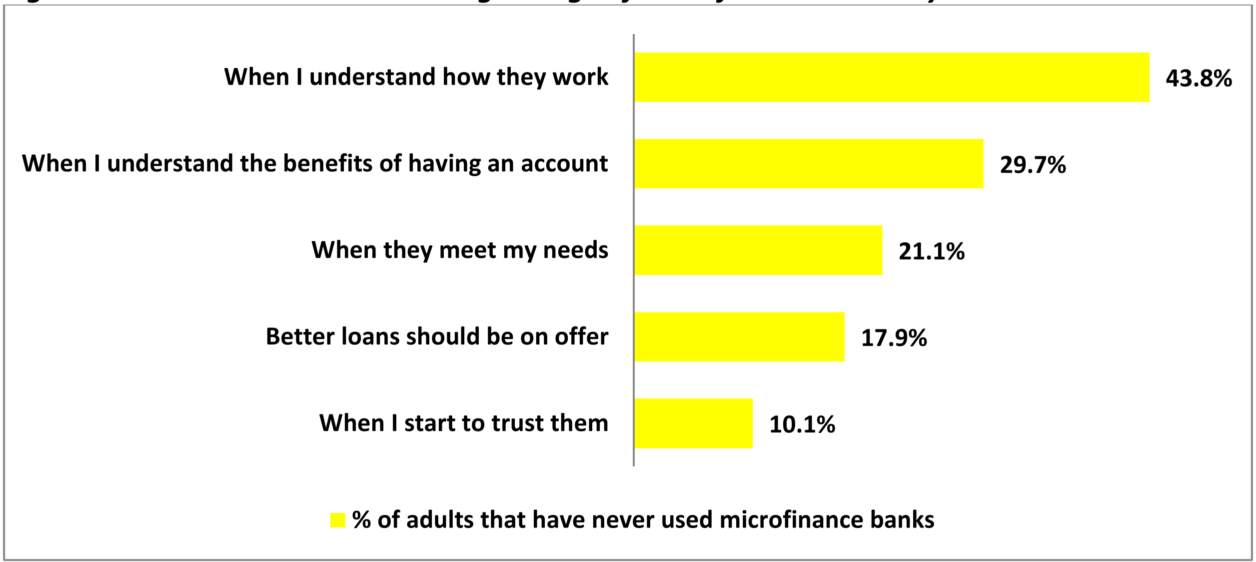
Figure 10: Access Barriers for Non-users of Microfinance Banks



Source: EFInA Access to Financial Services in Nigeria 2014 survey

Of those adults that have never had a microfinance bank account, 36.0 million adults (40.6% of non-users) can be encouraged to open a microfinance bank account. The top factors which would most encourage them to open a microfinance bank account are understanding how microfinance banks work, understanding the benefits of having a microfinance bank account, and when microfinance bank services meet their needs.

Figure 11: Factors that Will Encourage Usage of Microfinance Banks by Non-users



Source: EFInA Access to Financial Services in Nigeria 2014 survey

6. Conclusion

With over 85 million adults without a microfinance bank account, finding new ways of reaching out to this market is a major challenge for microfinance banks. New ways of thinking and innovation in product and service offerings are needed to attract the financially excluded population. Microfinance banks need to develop products/services that are uniquely tailored to meet the needs of the low income population and ensure that they fully understand the benefits of these products.

Credit

- There is a latent demand for credit, of the 11.4 million adults (12.2% of total adults) who borrowed money in the previous 12 months when Access to Financial Services in Nigeria 2014 survey was conducted, 6.5 million borrowed from family and friends, compared to only 0.6 million that got a loan from a microfinance bank. However, 13.4 million adults (14.4% of total adults) bought goods/services on credit.
- Microfinance banks need to tailor loan products to suit the specific needs of consumers. Factors to consider when designing loan products include quick access, repayment period, low interest rates and flexible collateral requirements.

Savings

- Microfinance banks should develop innovative savings products to encourage the 25.5 million adults currently saving at home to save in a microfinance bank.

Channels

- Extend microfinance beyond branches by using technology such as mobile phones and POS devices.
- Take microfinance services closer to the customer through agent banking by leveraging non-bank channels such as retail stores, restaurants, petrol stations.