

The Millennium Development Goals: What Role for the Financial Sector in Nigeria

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I. Introduction

When 189 Heads of State and government from the North and South, as representatives of their citizens, signed to the Millennium Declaration in 2000 at the UN Millennium Summit, there was a sense of the urgency was to "free our fellow men, women and children from the abject and dehumanising conditions of extreme poverty, to which more than a billion of them are currently subjected." The Summit therefore adopted the Millennium Development Goals (MDGs). The content of the MDGs provide concrete, numerical benchmarks for tackling extreme poverty in many dimensions. It also provided a framework for the entire international community to work together towards a common end by making sure that human development reaches everyone and everywhere in the global space.

The Goals represented human needs and basic rights that every individual around the world should be able to enjoy, including freedom from extreme poverty and hunger; quality education, productive and decent employment, good health and shelter; the right of women to give birth without risking their lives; and a world where environmental sustainability is a priority, and women and men live in equality. The leaders also pledged to forge a wide-ranging global partnership for development to achieve these universal objectives by believing to use the first 15 years of the new century to begin a major onslaught on poverty, illiteracy and disease. They gave a clear measure of success or failure via the MDGs targets. To them, the achievement of those targets by 2015 would not mean the battle for development had been won, but failure to achieve them, implies that they are losing. Most regions were expected to meet many of the MDGs by 2015, while sub-Saharan Africa and South Asia were to be seriously off track (World Bank, 2006).

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Recognising the importance of financial sector in the implementation of MDGs, the United Nations General Assembly adopted 2005 as the International Year of Microcredit to "address the constraints that exclude people from full participation in the financial sector"(UNO, 2005). At the World Summit of the United Nations in September 2005, Heads of State and Government recognised the need for access to financial services, in particular for the poor, including through microfinance and microcredit. Earlier, at the Monterrey Consensus, the Heads of State and Government had adopted at the *International Conference on Financing for Development in 2002* where they explicitly recognised that "microfinance and credit for micro-, small and medium enterprises...as well as national savings schemes are important for enhancing the social and economic impact of the financial sector". This is why Kofi Annan (2003) said, for development, you need resources such as: human resources; natural resources; and, *crucially, financial resources*. The Conference, therefore, recommended that development banks, commercial banks and other financial institutions, whether independently or in cooperation, can be effective instruments for facilitating access to finance, including equity financing.

To these leaders, the world possesses the required resources and human knowledge to ensure that even the poorest countries, and others held back by disease, geographic isolation or civil strife could be empowered to achieve the MDGs. Meeting the goals is, therefore, everyone's business. Falling short would multiply the dangers of the entire world – from instability to epidemic diseases to environmental degradation. But achieving the goals will put all humans on a fast-track to a world that is more stable, more just, and more secured. They equally believed that the Goals are achievable when nationally owned development strategies, policies and programmes are supported by international development partners.

In most developing economies, including Nigeria, financial services are only available to a minority of the population. Although financial sectors are expanding as these economies grow, financial assets usually remain highly concentrated in the hands of a few. Majority of the people in these countries have no savings accounts, do not receive credit from a formal financial institution, and have no insurance policies. They seldom make or receive payments through financial institutions. The limited use of financial services in developing countries has become an international policy concern. Indeed, the

Heads of State and Government meeting at the September 2005 World Summit at the United Nations stated that: "We recognise the need for access to financial services, in particular for the poor, including through microfinance and microcredit" (United Nations, 2005). This reflects what must be — and increasingly is — a concern of development and poverty eradication policy at national and local levels: the recognition of the important contribution a broad-based financial sector makes to economic development and poverty alleviation.

The basic question is: why are so many bankable people unbanked? But who are the bankable unbanked? Who are the people and firms who are excluded from full participation in the financial sector — those who should be, but are not using formal financial services? They are creditworthy people and firms who would be able to generate income to repay what they borrow, but who do not have access to credit. They are insurable people and firms who have the income to pay for group or individual insurance premiums on a regular basis, but who do not have access to insurance. The largest group of unbanked people is the group who want a safe place to save, build assets and a reliable way to transfer and receive money, but who do not have access to savings or payment services.

Although financial development has economy-wide effect, broad access to finance for households and firms is necessary to reap its full benefits. It is understandable that financial development and greater access to financial services do lead to income growth, reduce poverty and undernourishment, and are associated with better health, education, and gender equality (components of MDGs). However, despite the apparent benefits of finance, available evidence in Nigeria still show that financial services are far from universal to the teeming population of the country. Although access to finance is increasing with the various recent initiatives and innovations of the Central Bank of Nigeria (CBN), there are still several factors that impede poorer households and smaller firms to fully utilise the financial system. With 3 years left to the fulfilment of the MDGs promises, Nigerian financial system has a crucial role to play if the economy is to meet the targets envisaged in the MDGs.

The purpose of this paper, therefore, is to redefine the role of the Nigerian financial sector towards meeting the MDGs by 2015. The paper is, thus, structured into four parts. Part I, briefly analyses the targets of the MDGs and the situation in

Nigeria. In part II, an attempt is made to examine the various areas where the financial sector can offer helping hands in the implementation of the MDGs targets in Nigerian economy. While Part III examines the reasons why financial services in Nigeria are not within the reach of the MDGs target group (the poor), Part IV addresses the various measures to improve the financial services sector towards the inclusion of the poor to meet the MDGs targets. Part V concludes the paper with some recommendations.

II. The Millennium Declaration and the Targets

At the Millennium Summit in September 2000, 189 nations unanimously adopted the Millennium Declaration. The Declaration contains eight specific MDGs (Appendix I). The main aim of the MDGs is to eradicate extreme poverty around the world by 2015. As such, the MDGs are the most ambitious and most broadly supported development goals the world has ever established. The importance of the MDGs cannot be overstated. First, as reflected in the Millennium Declaration, there is a moral obligation to “free our fellow men, women and children from the abject and dehumanising conditions of extreme poverty, to which more than a billion of them are currently subjected.” Second, poverty reduction matters for security and stability. Research shows, for example, that a negative shock on income growth increases the probability of a civil war. Third, economic prosperity for the poor creates new global growth opportunities by unlocking new consumer markets and entrepreneurial activity.

II.1 Relationship between the MDG Targets

Adopted in 2000 at the Millennium Summit (see Appendix 1), the eight MDGs are articulated along 8 goals. Each of the eight MDGs in turn, is consist of several targets, leading to a total of 18 targets, and each target is measured by several indicators, giving a total of 48 indicators. No doubt, the prime focus of the MDGs is on income poverty since it plays a central role in attaining the other targets. That is, although the MDGs are formulated separately, they closely relate to each other. For instance, higher household income enables children to go to school, and improves a household's access to health care needs. In turn, better health and education make people more financially productive, raising their incomes. Better health and education and higher income of women have a higher effect on household welfare, compared with the improvements in these same indicators for men, suggesting that gender inequality affects health and education impacts

on overall economic outcomes. Thus, reducing poverty plays a central role in attaining the MDGs.

Although poverty has several dimensions, including health and environmental aspects, people are generally defined to be poor if they fall below a certain minimum level of daily income, that is, below a certain poverty line. Internationally, the most commonly used measure of poverty is a daily income of US\$1 or US\$2 a day, corrected for purchasing power. Because of this high correlation, income poverty is a good proxy for the shortfall on the other MDGs. When households are richer, they can afford more access to goods like nutrition, education, and health care, thereby achieving better outcomes on these MDGs. With higher income, households are also better able to invest and enhance their productivity and thereby increase their income further. Investments can vary from using fertilizer (to increase crops' productivity) to getting more education to increase wage income. In turn, by being more productive, people are more likely to increase their income and escape poverty.

II.2 Report on the MDGs in Nigeria

According to Nigeria MDGs Report (FGN, 2010), the trends in progress towards the MDGs are mixed, just as the prospects of meeting the respective MDGs 2015 targets are variable. Some MDGs indicators (such as universal primary education, prevalence of HIV/AIDS and ratio of girls to boys in primary education) show encouraging trends and prospects. The outlook for achievement of MDG8 (particularly with respect to debt sustainability and access to information and communication technologies) is positive and looks set to improve further. On Goal 8, the expenditure of debt relief gains on MDG-related investments has shown that Nigeria can have a significant impact on all goals in a relatively short time. In addition, debt relief has contributed significantly to the near-total eradication of polio in the country, a significant drop in maternal mortality and the recruitment of 74,000 primary school teachers.

However, other indicators such as those for primary school completion rates and access to improved water supply and sanitation, showed poor trends and wide deviations from the targets. Reversing these undesirable trends and accelerating progress towards the MDGs 2015 targets would require bold measures to enhance service delivery, scale up investments, rationalise resource allocation,

improve implementation coordination and improve the quality of government spending.

Adequate, reliable and timely data, (according to the report) is a prerequisite for accurately measuring and tracking the MDGs. But there are MDG indicators that have not been adequately evaluated due to large gaps in the data. These data deficiencies are most pronounced with respect to MDG1 (poverty and hunger) and MDG7 (environmental sustainability). Existing poverty estimates are based on 2004 survey results, while many environment-related indicators cannot be assessed because of lack of data. Nevertheless, data availability has generally improved, thanks to the efforts of the National Bureau of Statistics (NBS) in gathering, collating, coordinating and reporting data. There is still much scope for improving the adequacy, reliability and timeliness of data, as shown by the progress that has been made in recent years.

The outlook for data on MDGs will depend largely on progress in creating results-based monitoring and evaluation, and political commitment for sustained implementation of the

Table 2.2: Progress towards MDG targets and current status (June 2010)

Table 1: Progress towards MDG targets and current status (June 2010)	
Goals	Status
1. Eradicate extreme poverty and hunger diseases	Slow: There is less poverty than in 2000 but the data is not clear. Five out of every ten Nigerians still live in poverty. Growth has not been sufficiently equitable or generated enough jobs to reduce poverty further. Nutrition has improved significantly.
2. Achieve universal primary education	Average: Many more children are in school. Nine out of every ten eligible children attend school as a result of Universal Basic Education Programme interventions and enrolment in private schools. However, disadvantaged groups are still excluded and the quality of education remains poor.
3. Promote gender equality and empower women	Average: Some improvement in gender parity. Nine girls attend school for every ten boys. Economic and political empowerment remains elusive. A common reason for the

	disparity in rates of girls and boys completing schooling, especially at secondary level, is poor or non-existent water and sanitation facilities.
4. Reduce child mortality	Average: Significant reductions but progress needs to be accelerated.
5. Improve maternal health	Slow: The data for 2008 show a significant improvement, but the gap between the current situation and the target is still very large.
6. Combat HIV/AIDS, malaria and other	Average: The prevalence of HIV/AIDS in the population has fallen from 5 per cent to under 4 per cent. Rates of malaria infection have dropped, but still account for 300,000 deaths a year, on average. The hard work is still to come. Impressive progress against polio.
7. Ensure environmental sustainability	Slow: Access to safe water and sanitation has not improved significantly and other environmental challenges, such as erosion, coastal flooding and climate change, are growing.
8. Develop a global partnership for development	Average: The benefits of debt relief have not been matched by an increase in aid. Trade and access to markets is still unequal. Rapid increase in access to information and communication technologies, tele-density and regional initiatives (New Partnership for Africa's Development, Economic Community of West African States, etc.).

National Strategy for the Development of Statistics (NSDS) 2010-2014. It is expected that, in succeeding years, the data system will become better aligned with the measurement needs of the MDGs. Disaggregated analysis of data to regional level has shown wide disparities and inequalities across states and zones. The MDG indicators with the greatest state-level disparities include poverty, gender equality, universal primary education, maternal mortality and infant mortality. In essence, low-performing states are a drag on national progress towards the 2015 targets. Without significant improvements in low-performing states, it will be difficult to achieve the national targets.

The lesson for the national achievement of the MDGs is that there is a compelling case for better targeting, and greater coordination and synergy between federal, state and local governments. There is much scope for context-specific ameliorating measures by state governments, complemented by matching incentives from the federal government. It is, therefore, crucial to build the capacity of state governments to design and implement MDG interventions. In particular, it is important to leverage potential positive interactions of the MDG indicators.

The debt relief-funded Conditional Grants Scheme has shown itself to be an effective mechanism for delivering transfer of funds from the central to the local level. It has also encouraged governance reform that is critical to service delivery at the local level and, therefore, to progress on the MDGs. Improved macroeconomic performance over recent years has brightened the prospects for the MDGs in Nigeria. However, the global financial and economic crises and the imperative of adapting to climate change constitute additional challenges in the march to the 2015 targets. Besides, the macroeconomic and fiscal effects of the global financial and economic crises, there are potentially significant effects on household incomes, employment and assets. As governments take measures to ameliorate the negative fallout of the crises, it is important to ensure that short-term reactive measures do not undermine longer-term growth and development prospects.

Five years from the MDGs target date, the report concluded that this stocktaking is an important basis for Nigeria to chart a course for accelerated action on the MDGs. Given the shortfalls in achievements, and looking towards the targets, Nigeria needs a big push forward. Progress on some indicators has shown that targeted interventions matched with adequate funding and political commitment can make a difference. With this position of the report, the importance of financial services become very crucial. Perhaps, this is why the CBN has requested that this paper be presented.

II.3 Policy convergence of Nigeria's MDGs and Financial Systems strategies

Having observed and reported the trend in the country to achieving the MDGs in the 2010 Nigeria MDG report, the MDG Office in Nigeria has developed a Countdown Strategy (CDS) which aims to identify areas of emphasis for the Nigerian government towards achieving the MDGs or at least bring on track

specific programmes and strategies that will enable the right investments and policies towards achieving the MDGs. This strategy document proposed ways and outlined specific policy areas as well as investment plans that would ensure the achievement of the MDGs even though it recognised that the plans are ambitious. There were several convergence areas outlined in the document, including aligning the CDS with the 7-point Agenda and Vision 20:2020. The Transformation Agenda is apparently a modification of the Medium Term Development Strategy 2009-2011, and as such also aligns with the core objectives of the MDGs. The following strategies would be implemented include:

- Professionalizing agriculture to attract youths and new graduates in the areas of production, processing and marketing;
- Breeding and distributing high-yielding and disease-resistant species of crops, livestock and fish;
- Achieving an efficient agricultural extension system by increasing the ratio of extension agents to farmers to 1:500 by 2013;
- Accelerating the growth of the economy, ensuring a stable macroeconomic environment, ensuring an enabling environment for a market-based, private sector-driven economy and ensuring pro-poor economic policies;
- Instituting policies and programmes specifically designed to eradicate extreme poverty and hunger, such as youth empowerment and conditional cash transfer schemes, conditional grants to state governments, and Presidential initiatives on various agricultural commodities and Microfinance. In addition, putting in place a robust evaluation framework to improve the quality of programmes and encouraging rapid scaling-up when they deliver good results;
- Speeding up improvements in infrastructure, services and human resource capacity, particularly in rural areas;

- Increasing investments in agriculture, promoting modern equipment and technology transfer to attract the younger generation to the sector, and strengthening industrial processing technology and market linkages to boost employment and income from agriculture;
- Establishing community-based care schemes to strengthen social security for the elderly; and
- Urgently improving all coordination, monitoring and evaluation of poverty eradication efforts throughout the country.

Examining the strategies as outlined above, it is apparent that the objectives and strategies are deliberately skewed in favour of the poor, particularly in the rural areas. In terms of envisioning the role of the financial sector, specific mention of "microfinance" was made to the extent that it is a deliberate strategy at achieving poverty eradication through access to finance. This strategy, though not elaborated has been recognised globally to be a major driver of access to credit and financial services by the very poor.

In the case of the Financial Systems Strategy (FSS 2020) led by the CBN in relation to the MDGs, it can be said that the financial services sector is aiming at stimulating growth in the Nigerian economy with the consciousness that economic growth would transform the standard of living of its people by deliberately focusing on identified "drivers" whose immediate development would enable the financial sector to catalyse growth in other parts of the economy. Capital markets, micro, small and medium enterprise finance credit, mortgage, insurance, money markets, foreign exchange markets in the economy which include the SMEs have been identified. What remains to be seen is whether the development strategy of the financial sector is deliberately skewed in favour of the poor. This is not as apparent as it is for the MDG CDS. This is a major factor in terms of policy alignments in the sense that financial services development with all its potential to enhance growth can actually exacerbate poverty in the country if the income inequality index is high.

Examining the ways in which the financial services sector within the overall scheme of inclusive financial services development can catalyse the process of achieving the MDGs is indeed a very crucial subject. This will enable targeted

approach to channelling the various operations of the financial sector poverty eradication which in turn will boost the deepening of the financial services sector.

III. Importance of Financial Sector Services Towards Reaching the MDGs Targets

It is known that the financial sector consists of all the wholesale, retail, formal and informal institutions in an economy offering financial services to consumers and businesses. In its broadest definition, it includes everything from banks, stock exchanges, and insurers, to credit unions, microfinance institutions and money lenders in the economy. Access to a well-functioning financial system can empower individuals, in particular poor people, allowing them to be better integrated into the economy, actively contribute their quota to national development as well as protect themselves against economic shocks. Thus, the creation and expansion of financial services towards the poor and low-income population of the economy can play a vital role in the overall economic development of the country. Expanding and deepening financial services development for poor people should simultaneously be a concern of poverty reduction and financial sector strategies. In this way, inclusive financial sectors (where no segment of the population is excluded from accessing financial services) can contribute to attaining the goals contained in the MDGs.

There are many different ways in which inclusive financial sector development in Nigeria will be of interest to the MDGs. These include when the:

- efficiency and competitiveness of the sector is improved;
- range of financial services that are available is increased;
- diversity of institutions which operate in the financial sector is increased;
- amount of money that is intermediated through the financial sector are more;
- extent to which capital is allocated by private sector financial institutions, to private sector enterprises, responding to market signals (rather than government directed lending by state-owned banks), is enhanced;
- regulation and stability of the financial sector improve; and
- greater of the population (particularly , the poor) gain access to financial services.

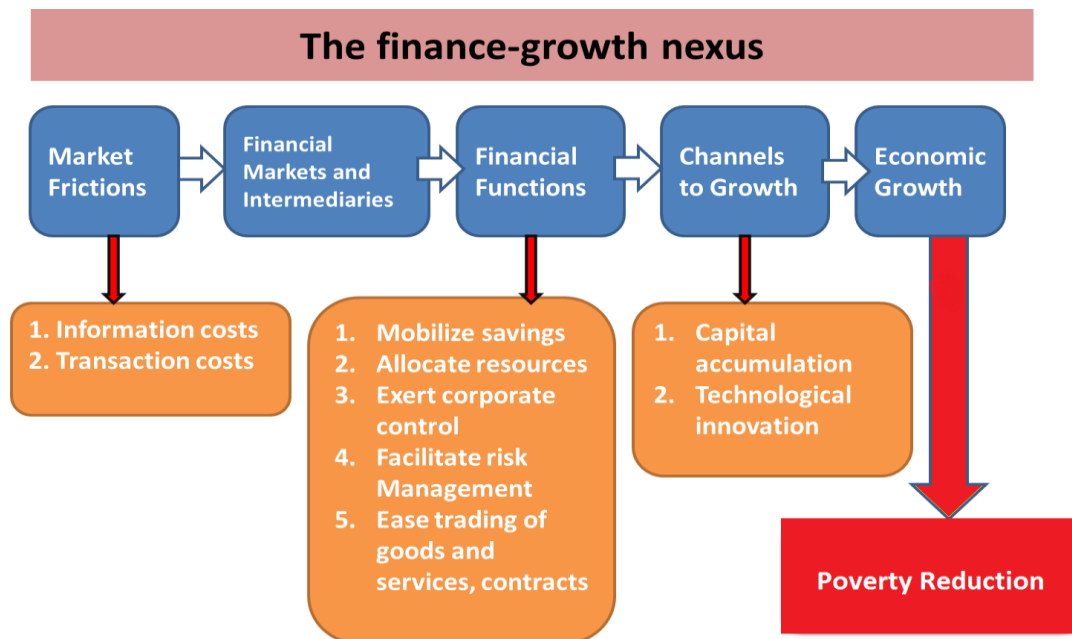
The reason why financial development matters for the MDGs is straightforward. It enables more productive allocation of capital to the poor and small firms, which in turn facilitates meeting many of the MDGs. Under efficient and well-functioning financial markets in the country, firm characteristics such as: size, ownership, and profitability do not matter for new investments. All potential projects with attractive economic returns qualify to receive financing from the financial markets regardless of the firm that plans to undertake them. The same applies to households. With well-developed markets, it is only the expected economic return on new investments of the household that matters to receive bank assistance. Other household characteristics such as current income, wealth, education, gender, and ethnicity, become irrelevant. With this development, both the rich and poor can reap the full benefits of financial markets. Financial services would then enable households to be more productive, as households can borrow for investment not only in real assets, like fertilizer, a tractor, or a computer, but also for education, health, and other services that add to their productivity and high economic returns.

Consequently, access to financial services can enhance individuals' nutrition and health, and could allow people to send their children to school. Self-employed women with access to financial services are better able to control their economic destiny and gain more influence in their households and communities, thus, often aiding gender equality. In addition, the benefits of financial sector inclusion to all extend beyond financing investment, and actually often start by offering better and cheaper payments and savings services. These services allow firms and households to avoid the costs of barter or cash transactions, reduce the costs of remitting funds, and provide the opportunity to accumulate assets and smooth income. Insurance services can help firms and households cope with shocks and reduce their vulnerability to adverse situations, thus mitigating the risk of falling into poverty.

From the above, financial sector has an important role to play in achieving the MDG targets by:

- ❖ mobilising savings for productive investment, and facilitating capital inflows and remittances from abroad, the financial sector has a crucial role to play in stimulating investment in both physical and human capital, and hence increasing productivity;

- ❖ reducing transactions costs, facilitating inward investment, and making capital available for investment in better technologies, the financial sector can promote technological progress, thus, increasing productivity, and improving resource use;
- ❖ enabling the poor to draw down accumulated savings and/or borrow to invest in income-enhancing assets (including human assets e.g. through health and education) and start micro-enterprises, wider access to financial services generates employment, increases income and reduces poverty; and
- ❖ enabling the poor to save in a secure place, the provision of bank accounts (or other savings facilities) and insurance allows the poor to establish a buffer against shocks, thus, reducing vulnerability and minimising the need for other coping strategies such as asset sales that may damage long-term income prospects.



Source: Adapted from Ozer (2008)

From the above, it is clear that financial development improves the financial services sector in a country so that it can allocate capital between lenders and borrowers more efficiently. Since more developed financial sector promotes economic growth (Levine, 2004), financial development may indirectly help achieve the MDGs also by stimulating growth. Recent research has also shown that financial development directly reduces poverty without increasing income inequality (Beck *et al.*, 2004; Rosner, 2010). There are several dimensions in relation to the MDGs that the role financial services sector can be viewed from. These include:

- A. Financial services and income growth;
- B. Financial services and poverty reduction;
- C. Financial services and health;
- D. Financial services and education; and
- E. Financial services and gender equality.

III.1 Financial Services and Income Growth

The financial sector development can contribute to income growth. Nobody doubts that income growth leads to improvement in people's lives because increased income allows people to enjoy better living standards and escape from extreme poverty. This in turn enhances the productivity of the people. In addition to providing efficient allocation and low-cost financial services, a well-developed financial sector screens potential investments, and monitors as well as produces information about the behavior of users of capital.

III.1.1 Financial Services Development Can Stimulate Private Sector

a) Effects on productivity and capital accumulation

When financial services develop, they are likely to lead to growth via: an increase in the savings rate as people could earn higher returns; increase in investment and capital accumulation (i.e more and better machines) as financial intermediaries raise more funds; and increase in total factor productivity as resources are more efficiently allocated. Essentially, because financial development facilitates the funding, finding, and monitoring of investment opportunities, it leads to a greater and better allocation of capital. In addition such development facilitates better risk-sharing; and as a consequence, investors are more willing to put their money in high-risk, high-return projects.

b) Effect on competition and innovation

Schumpeter (1964) argued that a developed financial sector provides entrepreneurs with the means to research and implement good ideas. As such, finance is key to effectively increase competition and innovation to enhance growth. Much empirical evidences support this role of finance. In this manner, financial development does induce technological innovation.

c) Effect on transaction costs

Financial systems provide many transaction services, from domestic payment services to international remittances to facilitating (international) trade transactions. Gains from better transaction services through more developed financial systems can be large. Today, development in the financial services has led to electronic payments system which is quite cheaper than cash transaction.

III.1.2 Risk-sharing and Lowers Volatility

It is understood that financial development results in lower GDP volatility, because investors and lenders can share risks better, and hence, absorb economic shocks more easily. Better risk-sharing makes investors more willing to invest in higher-risk, higher-return projects, and consequently enhancing growth. In addition, a well-developed financial system means fewer financial crises in the following areas:

a) Risk absorbing and sharing effect

A developed financial sector is able to spread risks widely, so that many economic agents bear a small portion of any economic shock, leading to more GDP stability and higher growth. This is through insurance products and sophisticated financial instruments that ensure that risks will be carried by those who are able and willing to do so. The risk reduction comes about more generally through the services a financial system offers. Spreading of these risks using financial markets can lead to more investment in long-term, high-return projects, which boosts economic growth. In addition, better financial markets can lower output volatility, because long-term projects will be less frequently terminated due to liquidity problems in recessions as termination would only amplify the recession.

b) Enhance more investment and high-return projects

High volatility has a negative effect on investment because it makes predicting returns on (long-term) investments more difficult. In addition, long-term investments tie up money, exposing investors to the risk of not having money available to absorb sudden income shocks (liquidity risk). Spreading of these risks using financial markets would clearly lead to more investment in long-term, high-return projects, which boosts economic growth.

c) Reduction of financial crises

Financial systems largely rest on contracts that promise to exchange money now for repayment in an uncertain future. This makes the banking systems to be especially fragile, as banks fund themselves with short-term deposits and investments in long-term. Furthermore, banks are subject to moral hazard. This fragility has resulted in financial crises from time to time in many countries. However, a more developed financial sector is far less fragile and has seen fewer crises. The real costs associated with a crisis can be high as financial sectors function poorly in the wake of a crisis. Good borrowers are excluded from credit, which reduces growth, and depositors may lose their savings due to bank default or high inflation, reducing the supply of savings available for intermediation. All these will slow the growth of the real sector which in turn entrenches poverty.

III.2 Financial Services and Poverty Reduction

Financial sector development does not only lead to growth, nor does it just benefit the rich alone; but that the poor can equally benefit substantially when the services in the sector improves. As explained in Rosner (2010), financial development can reduce poverty in 3 ways:

First, it could enable more people to access credit. In Nigeria, as in other developing countries, financial market imperfections hinder people with profitable projects from obtaining the credit to fund them. Information asymmetries make it difficult for banks to determine the risks of different projects. Borrowers need to provide collateral to convince banks to lend to them. The poor do not have the assets to put down as collateral and, thus, cannot access credit to invest in profitable projects. Financial development may help the poor by reducing market imperfections that constrain credit.

Second, financial development has traditionally reduced transaction costs in the economy by increasing the amount of money in the economy. Trading real goods for each other in barter systems is costly because of the need to find trading partners and to store and transport goods. A system of exchange based on money is more efficient as it reduces these costs and promotes trade. Therefore financial development has helped the poor by reducing transaction costs in the economy.

Third, financial development can enable more people to deposit their savings. McKinnon's (1973) "conduit effect" states that if the poor could deposit their savings in financial institutions and earn interest, they would be able to accumulate wealth to invest in profitable projects. Therefore, financial development may also reduce poverty by enabling people to save their income in deposit accounts.

III.3 Financial Services Development and Poverty Reduction

Poor people generally have worse access to finance while they stand to gain from improved access to financial services. For one, access to financial services can provide income as it reduces costs. Access may also increase income due to higher productivity and dampen income volatility due to better insurance. These impacts could be seen from the various forms of financial services such as: payment services, savings, credit, and insurance.

a) Payment services

Payments via a developed financial sector can be cheaper, easier, and safer than cash payments. For example, a well-developed financial sector provides transcripts to prove payment and protects parties from theft, and reduces travel costs. This facilitates and increases transactions between parties, especially those who are unfamiliar with each other. Cash payments are more common among the poor, however. They, thus, incur costs of being unbanked. For example, households are often charged a fee for the services of a money middleman. One important function of the payment system is the transfer of funds, including remittances. However, making remittances is much more expensive for the unbanked.

b) Savings

Saving is important for households to weather difficult times, like drought, damages, and fire; and to plan for the future, such as accumulate for a dowry. However, poor households often have risky, low-yield informal savings in the form of livestock, jewelry, cash, and deposits in rotating savings and credit associations. Investment in livestock is risky and inconvenient because animals are susceptible to illness and can only be sold entirely, even when a household only needs a small amount of cash. Besides being risky, these forms of savings are often costly, implying a low or negative real (inflation-adjusted) yield. Hence, when the financial sector functions properly, it enables households to diversify their savings over deposits, bond markets, and stock markets (and real assets) with more attractive yields.

c) Credit

Affordable credit can help households overcome shocks like illness and death, "smooth" their consumption, and give them the opportunity to invest and increase their productivity. For example, credit empowers would-be entrepreneurs and enables households to buy fertilizers, better seeds, tractors, and education services for their children. In turn, higher (agricultural) productivity and higher incomes provide households with access to better nutrition, reducing the prevalence of undernourishment.

d) Insurance

Volatility of household income, especially the poor, can be high due to fire, theft, drought, illness, death, among others. When there are ideal insurance markets, people need not suffer from unavoidable risks. For example, if people in an isolated village could insure each other perfectly, individual income volatility should only respond to village-level income fluctuations and not to shocks to individual incomes, because these can be absorbed by the village population as a whole. Shocks can have a severe impact on poor households' welfare, since they often do not have any other cushion of assets.

III.4 Financial Services in Stimulating Economic Growth and Income Disparity

According to World Bank (2002), in 2001, GDP per capita in the world was on average about US\$21 a day, while in the same year, more than half of the world population lived on less than US\$2 a day, and more than 1 billion lived on less than US\$1 a day. Based on this revelation, poverty reflects the unequal

distribution of income around the world. Besides a globally unequal distribution, poverty at the individual country level is, in turn, driven by a combination of lack of economic growth, as measured by GDP per capita, and an unfair income distribution, as measured by inequality. Inequality matters because poverty could be high despite a high level of GDP per capita if inequality is high as well. Financial services development reduces poverty via economic growth, as already discussed above. It also reduces inequality because access to financial services provides a level playing field for all and gives the poor better opportunities to participate in the (formal) economy. Financial services development could be associated with a lower poverty ratio by broadening the opportunity of all to participate in productive economic activities, particularly when new inclusive financial products are introduced into the market.

In terms of inequality, the beneficial effects of financial development for the poor come about in an indirect way, even when they do not have direct access to financial services. The effect of financial development on inequality is large and stronger for countries with greater financial development (as measured by more private credit). Arguably, working in the modern sector requires more access to finance, e.g. to start and run a firm, or to invest in higher education.

In terms of undernourishment, one is considered undernourished when one's food intake falls below the minimum requirement or when one's food intake is insufficient to meet dietary energy requirements continuously. There are at least two channels through which financial development reduces prevalence of undernourishment through:

1. reduced income poverty; and
2. higher agricultural productivity.

Higher income enables households to avail themselves of more and better nutrition. Higher agricultural productivity enables rural households to increase the yields of their land for their own consumption or sell and trade the surplus, boosting their incomes. Moreover, higher productivity can lower the market price of food, thereby making it more accessible to poor households. The poor typically lack income and access to healthy nutrition, which may lead to undernourishment, an important component of the Poverty MDGs. Since

financial development reduces income poverty and since there exists a strong relationship between income poverty and undernourishment, financial development may reduce the prevalence of undernourishment via income poverty reduction.

Also, it is expected that undernourishment influences agricultural productivity and vice versa. This is because of the causal relationship between financial development and the growth of agricultural productivity. In turn, this is associated with less undernourishment. Arguably, greater availability of credit enables farmers to invest in productivity enhancing equipment and techniques like irrigation, fertilizers, and tractors. Indeed, preliminary analyses suggest a strong association (sometimes even causal) between financial sector development and several agricultural productivity variables.

III.5 Financial Services and Health

a) Access to insurance, credit, and savings gives access to better health care treatment and living and working conditions

Health care expenses can be high and often come unexpected. They are often induced by lack of past health care treatment and poor living and working conditions. Health care insurance enables households to take precautionary health care measures and treat illness and disease more effectively. Moreover, financial services enable households to invest in better living and working conditions (i.e. better housing and safer working equipment), reducing the probability of accidents and hygiene-related diseases. In addition, financial services are able to help households struck by diseases to keep their income streams relatively stable.

b) Financial services may improve education, which is beneficial for future household health

Previously, we discussed that financial services could improve access to education and enhance the gains from schooling. In turn, we can expect that financial services development will influence the health of future households via better education of their children.

c) Financial services may empower women leading to better household health care

Women take better care of their children and spend more of their household budget on improving household welfare than men do. Hence, financial services that empower women would indirectly contribute to better household health conditions.

d) Financial development induces economic growth and facilitates public and private investment in health care infrastructure

Higher economic standards and growth are associated with better and more health services, e.g. more hospitals and clinics. Since financial development spurs economic growth, facilitating more investment, it can lead to a better health care system.

III.6 Financial Services and Education

a) Access to credit and savings to pay for schooling expenses

When household income is low, households cannot afford educational services, although education is clearly a good investment otherwise. Income may be structurally low or could be temporarily low due to shocks, as in the case of droughts. As a consequence, children may not enroll or drop out of school prematurely during such hard times. With better functioning financial markets, households may be able to borrow against future income to pay for tuition fees, school uniforms, and transportation costs, even when current income is low.

b) Child labour substitutes for a lack of agricultural insurance

Child labour in Nigeria is used as insurance against unexpected seasonal fluctuations in the income of agrarian households. As a consequence, school attendance is lower in these periods. Assuming that education has positive returns, this self-insurance mechanism may be detrimental to households in the long-run. Again, financial markets can help overcome this problem.

c) Financial services may empower women, which leads to better education of children

We already stated that women take better care of their children and spend more of the household budget on improving household welfare, including

through education, than do men. Hence, financial services that empower women can indirectly contribute to better education of their children.

d) Financial services may increase school returns by better health care and less undernourishment

Financial services in the form of credit, savings, and health insurance can prevent common diseases by making precautionary doctor visits and immunization possible. In addition, financial services can enable households to pay for better health treatment and medicines. In turn, financial services may boost educational performance via health improvements.

e) Financial development induces economic growth that leads to greater public and private investment in educational infrastructure

Higher economic standards and growth are associated with better and more schools. Since we earlier argued that financial services development spurs economic growth, it can indirectly contribute to a better educational system.

III.7 Financial Services and Gender Equality

We hypothesize that financial services mainly benefit gender equality through boosting female income generating activities.

a) Finance can contribute to general female independence

Access to financial services enables women to take their destiny more in their own hands and be more productive. Using financial services, they can manage their own income and can borrow money for entrepreneurial activities without being (as) dependent on their husbands or middlemen.

b) Better financial services may lead to better future education of women who consequently are better and able to take control of their lives

Greater current availability of financial resources to send more girls to school can produce a future generation of literate, better-educated women who are better and able to take control of their lives.

c) Financial services targeted at women's special health care needs may empower them

Credit, savings, and insurance may enable women to access basic women-specific health care, like hospitalisation during child birth.

IV. Financial Services and the Poor in Nigeria

Despite the developmental functions of the CBN from inception and the various initiatives put in place by the financial regulatory agency overtime, poorer households and smaller firms still lack usage and access to financial services. This result, then, raises the following questions:

- ❖ Exactly how many poorer households and smaller firms lack access to financial services in Nigeria?; and
- ❖ What are the barriers for them to get (better) access to financial services?

Answers to these questions would require understanding of both what drives financial sector development and what determines the access to finance by individual households and firms. The answers relate to the fact that the existing financial development and outreaches are yet to efficiently and effectively provide a broad range of affordable financial services to all. Consequently, poorer households and smaller firms have lower usage of, and experience higher barriers to access financial services. While much is known about what drives financial sector development in general, it is less clear how to enhance access for the poor and how effectively to create a level playing field for smaller firms relative to their larger counterparts. As a consequence, the potential impact of financial sector development on the MDGs remains largely untapped and it is doubtful whether the year 2015 targets for the achievement of the MDGs would be realistic in the economy.

Evidences from the recent banking consolidation and the crisis that occurred in some of Nigeria's banks revealed that the financial sector had hitherto functioned ineffectively and inefficiently. They were not well developed and poor outreach to clients. This manifested itself in small banks; shallow stock markets; rudimentary insurance markets; low usage of loans, deposits, and insurance products; and poorly developed bank networks and other distributions channels. The result is that financial services are out of reach for poor households and smaller firms in spite of the efforts of the CBN.

Outreach to households of the financial services is significantly low in the country and the implications of this development affect the poor more. Up till now, there is still a general limited use of, and access to, financial services. More specifically,

the economy has lower penetration of banking branches and ATMs, and a lower usage of deposits, loans, and insurance policies. Despite improvements, the microfinance industry still lacks scale and stability to compensate for this lack of financial services in developing countries.

Some of the differences in the usage of formal banking services may reflect the more widespread usage of informal financial services in the country. Even the microfinance programmes, which are especially targeted at providing services towards the poorest in the country also, have a relatively low penetration rate in the economy. Low usage of financial services by SMEs does not necessarily mean low demand of smaller firms for external financing. Rather, there is much evidence that SMEs are credit-constrained, that is, they have an unmet demand for external financing. Thus, poor households and smaller firms typically have lower usage of, and lack of access to financial services. They are not well able to raise affordable external financing, and are compelled to finance their investment more internally with extra costs and risks. As a consequence, poor households and smaller firms are not able to fully participate in the economy and accumulate enough capital (in terms of assets, education, and health) to improve their living standards, resulting in underinvestment in many ways, leading to worse MDG outcomes.

IV.1 General Reasons for non-use/Lack of Access of Financial Services by the Poor

Why do poor households and smaller firms have lower access to, and usage of, financial services? The starting point for answering the question is differentiating between *access to* and *usage of* financial services. Usage is the actual consumption of financial services, whereas access is the availability of the supply of financial services at a reasonable cost. Hence, there can be a difference between access and usage. When a household or firm does not use financial services, it might have access, but chooses not to use it; or it may not have access and, consequently, is not able to use it.

The reasons for not using financial services are multiple. Many households in Nigeria choose not to have a bank account, as they write no cheques, collect their wages in cash, and transact their finances in cash. So, while they likely have access, they may not be burdened by lack of use. Firms that do not use external credit may choose not to do so because their rates of return on capital are too

low to justify formal finance or because they are not willing to provide the necessary information about their business to banks and by implication to others, including the tax authorities. Equally important is the fact that financial service providers may not wish to supply financial services to all customers since it is not profitable or sustainable to do so. This does not reflect any market failures, but rather indicates that finance, like other services, has its own demand and supply forces.

Macroeconomic instability, a weak institutional environment, large government intervention, and lack of competition can act as barriers to accessing financial services or, even when accessible, make financial services more expensive. First, high inflation and large systemic risks make financial intermediation more difficult. In terms of credit, such risks decrease the probability of repayment of otherwise viable investment opportunities, making lenders more reluctant to lend. This relationship can be exacerbated by institutional weaknesses such as a poor legal system, absence of credit information, and poor collateral registration. As a consequence, the financial sector can remain small and access more limited.

Secondly, government policies such as interest rate ceilings, targeted lending, or subsidised credit programme often distort access, could impede proper pricing, and reduce the interests of financial institutions to innovate and offer new financial products. In general, these interventions can twist good economic decision-making. They can remove incentives for banks to attract deposits, and make good loans. They could also reduce the willingness of depositors to put money in banks and make borrowers to exert enough effort and pay back. Moreover, while some of these government interventions are designed to increase access to financial services for the underserved households and firms, reality often entails that only the well-connected are offered this preferential access. Therefore, the effects may be perverse; rather, the ones with the best investment opportunities are crowded out.

Thirdly, a lack of competition makes financial institutions less interested in providing basic services. It often results in banks targeting only the more affluent consumers and the large corporations that provide higher margins. With more competition, financial institutions are more inclined to go downstream to look for profitable growth opportunities. Particularly, foreign banks entry has proven to be

beneficial to enhance competition. Besides intensifying competition, foreign banks can also bring in more sophisticated technology, systems, and people.

IV.2 Market Forces Issues

IV.2.1 Supply Side Problems

a) Information problems.

Often, suppliers of credit or insurance companies cannot obtain enough information about the investment opportunity that exist and the behavior of the borrower, making them reluctant to extend financing. This happens when there is no credit history of the potential borrower, when the cash flow calculations cannot be trusted due to weak accounting standards, or when the lender simply does not have the sophistication to assess the quality of the investment. Credit information is important for financial institutions to extend financing, especially to households and smaller firms. A lack of credit information may result in the rejection of otherwise good loans, as only crude characteristics such as income or region can be used.

Another related problem is that future income streams of the poor are harder to estimate and keep track of, whereas middle class salaries are often paid by established organisations and are more easily tracked. A reason for this is that poor people are often active in the informal economy and do not make bank transactions to avoid monitoring, including by the tax office. This situation results in a more costly way of transacting with the poor in the economy, which often means banks shying away from extending loans to the poor in the first place.

b) Transaction problems.

To be sustainable, and taking into account the costs associated, a loan, insurance policy, payments service, or a deposit account should be profitable for its provider. However, this is less likely in the case of small accounts or loan sizes: accepting a ₦100 deposit can cost as much as accepting one of ₦100,000. These transactions, however, cost money and involve high fixed costs, including the maintenance of a costly branching network. This is an important problem since the average deposit of a poor person can be as little as a few naira.

Furthermore, it may be more costly to provide financial services to poor people in the country as they often lack identity cards or birth certificates that are necessary to open an account, implying that other means will be needed to facilitate their access to financial services. When opening an account, high minimum deposit amounts or fees may be required to compensate for these costs. However, this requirement limits access to the richer segments of society in the country. Having to pass on costs could be a larger problem for financial institutions that operate on a relatively small scale or have to operate in areas with low population density, like some microfinance institutions in various parts of the country. By gaining size and economies of scale and using better cost management, unit cost could be lower, potentially leading to higher outreach and more attractive prospects for financial institutions.

c) Enforcement problems.

A good legal system and well-functioning courts could help with access. Ease of enforcement, for example, facilitates repayment of a loan. Conversely, in the absence of a good legal environment, lenders will be more hesitant to extend loans. Under such situation, poor people will be more affected by these legal and judicial deficiencies. They often lack documents to prove ownership of assets that can be used as collateral. Credit extended is accordingly less than normal for these reasons in the country. In some parts of the country, women are even worse off, since they are not allowed to hold assets at all. Providing collateral or co-financing does not just supply security, but also ameliorates information problems, since borrowers will behave more prudently when they may lose their own assets. However, poor households and SMEs typically do not have the necessary assets to begin with. Hence, banks often take refuge to crude personal and cultural characteristics, which often discriminate against the poor and small firms that could otherwise represent healthy businesses.

IV.3 Demand side Problems

a) Financial illiteracy

The poorest households in Nigerian economy are often illiterate and have limited understanding of the various products in the financial markets. For example, applying for a loan or an account may involve filling in several forms, which might be too challenging for many. As a result, the illiterates are less able to deal with

the often high administrative burden of opening an account or applying for a loan.

b) Lack of Trust.

Lack of trust and safety may be the main reasons why some poor households remain unbanked. Partly driven by mistrust in the financial system, and for cultural reasons, many of them prefer to invest in low-yielding physical assets such as land, houses, cattles, among others. Households might mistrust banks for good reasons, especially after financial crisis, like the one that occurred in 1993 when many finance companies in Nigeria collapsed and many poor people were made worse off.

c) Informal Financial Services.

Many households and SMEs do not obtain financial services via the official financial system, but rely on other means in Nigeria like "Esusu". In addition informal remittances are often processed through informal networks or through money order transfer companies that operate outside the formal financial system in the country. Family, friends, and their internal savings are typically the first source for those in need of capital. This informal finance happens in both developed countries and developing countries, but more so, in financially less-developed countries.

V. Enhancing the Inclusion of the Poor in Nigerian Financial Service Activities

While Part II of this paper showed that financial development and access to financial services could help in achieving the MDGs in the country, Part III showed that many poor households and small firms in Nigeria still lack access. In this segment, enhancing access of financial services by the poor and small firms in the country would be addressed through the achievement of the MDGs in the country by 2015 under the following:

V.1 Expanding Scale of the Various Financial Institutions

Expansion of the size of the various financial institutions in the country is necessary because the fixed costs in financial intermediation make it hard for small institutions to provide services for small clients, especially in small markets. It is understood that economies of scale lead to decreasing unit costs as transaction

volumes increase, making some specialisation attractive for increasing access. While the recent consolidation in the banking system and the various on-going restructuring initiatives have increased the strength of Nigerian banks, the proliferation in the number of microfinance institutions in the country has continued to make most of them inefficient. Greater size can be attained by, for example, having foreign banks enter into the domestic market and encouraging regionally operating banks to use a common infrastructure within ECOWAS Member States. The ECOWAS Common Investment Market (ECIM) is expected to address this issue. The CBN should take the lead in this area.

V.2 Use of Existing Public Networks

In addition to the existing banks and other financial institutions, there is a large network of other public institutions which are lying idle and could be used to extend financial services to the vulnerables. They include institutions such as postal offices as well as other government institutions that could be used to allow various financial institutions to offer electronic finance services, thus sharing the fixed costs of a large network.

V.3 Improve Credit Infrastructure

Analysis of the access of small firms and the poor households to financial services in the country suggests that the institutional environment matters, perhaps even more than for households. This is particularly so on the credit side. Small and medium firms in the country use less of external finance, especially less of trade finance yet finance from banks is a major tool for trade financing management. Trade finance becomes a high risk venture given the absence of certain key information to mitigate such risks. For instance, knowledge of a customer's indebtedness in each of his locations would be a valuable tool for the banks to assess the customer's standing with other banks before committing fresh funds. This problem could be solved through the establishment of more credit risk management database in the country.

With a password to access the web-enabled connectivity of such a data base; a bank approached for funds in the country can quickly verify a customer's indebtedness to other banks in the economy and quickly judge his/her standing and credibility in honouring obligations (Aremu and Bamba, 2011). It would minimise the incidence of credit risks on member banks. This is currently lacking

and hindering access to financial services in Nigeria. The absence of credit information, difficulty in registering and recovering collateral, and problems with contract design and property rights enforcement could make lending, especially difficult. Credit services may, consequently, be limited to entrepreneurs with credit history, immovable collateral, such as real estate, or (political) connections, even if the entrepreneur has an otherwise sound investment opportunity. Under the ECIM project, ECOWAS Commission is working on similar areas on a regional basis.

In Nigeria, the current licensing of credit bureau may be able to bridge these identified gaps with the right regulatory frameworks to compel banks and other credit granting institutions to use the services of these credit bureaux.

V.4 Adjust Regulations Interfering with Operations

It is acceptable for CBN to regulate financial services provision, but sometimes such interference, if not properly packaged or implemented, may negatively affect efficient provision of financial services. For instance, some regulations can discourage the emergence of financial institutions that are more suited to the needs of lower-income households or smaller firms. It is the duty of the CBN, through its Corporate Communications Department to collate some of these regulations that generate backlash effects on the economy and make necessary adjustments. Rigidity in chartering rules, high minimum capital adequacy requirements, restrictions on funding structures, excessive regulation and supervision, and overly strict accounting requirements and other rules can prevent the emergence of microfinance institutions and smaller financial institutions aimed at providing access to financial services to the poor and small firms.

V.5 Adapt Regulation to Facilitate Multiple Forms of Financial Services

In Nigeria, many households patronise the banks for savings their money and making payments services. The attention of monetary authority should be focused on this area as opposed to excessive concentration on credit services. Hence, in its regulation, the CBN may need to consider savings mobilisation separately from credit extension. These types of financial services provision may require different forms of regulation and supervision.

V.6 Establishment of Financial Literacy Programmes

The general level of financial literacy in Nigeria is still relatively low, and may need to be increased, as is actively being done in other countries. Many people still prefer cash transactions to other easier modes of payments that are less expensive even to the banks. Consideration needs to be given to educating people on the benefits of (new) financial services architecture, which the CBN is putting in place and different types of financial service providers, so that people can strike the right balance between risk and benefits.

V.7 Enforce Regulations

It is understood that the various regulations from the CBN are aimed at protecting savers and borrowers against misuse and risks, though it might not be effective in some areas, given the lack of appropriate supervisory capacity, independence, and effective checks and balances, and may end up impeding access. A balance will need to be found between rules and enforcement capacity, with more emphasis given to market forces when enforcement is weak.

V.8 Providing Equal Access to the Financial Infrastructure

Smaller and non-bank financial institutions have often limited access to existing networks. In Nigeria the activities of the Nigerian Payments and Settlement System (NIPSS) are limited to a club of large banks. Consequently, important financial information-sharing is restricted to these banks and formal financial institutions. These developments, together with the limited existence of (private) credit bureaux make it difficult for other financial institutions to provide financial services, especially to low-income households and small firms. Yet, lower-income people often get their credit from these non-financial institutions. NIPSS activities should be expanded to cover these left behind institutions.

V.9 Permitting more Foreign Banks

In addition to the general view that competition can help with access, entry by foreign banks can enhance access. The presence of more foreign banks on the domestic banking system would compel local banks to lend to smaller firms, and direct provision of financial services by foreign banks. In addition, more foreign banks' entry would have indirect effects on the overall banking system, such as greater financial stability and improved efficiency of financial intermediation. These two effects can make the Nigerian banking environment more conducive

to lending, including particularly lower-income segments, and could put pressures on local banks to engage more in lending to lower-income segments as profitability in other segments declines.

V.10 Broader Access to Financial Services as Public Goods

For services deemed to be essential (i.e public goods), such as access to clean water, education, and healthcare, it is customary for governments to often intervene and either provide these services themselves, provide subsidies or require the traditional providers to extend their services to all in society, or at least to many, even if the private costs exceed the private returns (for social benefit reasons). These universal access objectives, however, are generally not found in financial services. Yet the MDGs appear to be related to public goods objectives. To determine whether there is a case for universal provision of financial services, more needs to be known about: the benefits of access to finance: why households and firms demand (or do not) financial services; why financial service providers provide (or do not provide) financial services; the costs to society of providing greater access; and what the role of CBN should be.

V.11 Design Financial Products more Suitable and Cheaper to the Customers

Banks and other financial institutions in Nigeria can also improve access to their services through better innovation to make their products more suited to low-income households and small firms. Mostly, this drive for innovation will occur through competitive forces. The sharp drop in the costs of international remittances over the last few years, for example, is due largely to competition. But, there have also been large effects of the improvements in technologies, both in terms of financial engineering and information and communications technology, driving innovations and lowering costs. Emerging observations suggest that there is still ample room for financial institutions to improve access for other forms of financial services, including through the use of new technology. The CBN is encouraged to cooperate with ECOWAS Commission in the implementation of the Regional Payments System of the Community under ECOWAS Common Investment Market (ECIM) initiative.

V.12 Encourage Use of Improved Technology to Reach Customers

New technology, including the internet, smart cards, and the use of mobile phones, can help to broaden access. The country can benefit from the increasingly wide coverage of cell-phone networks by the CBN advising the

banks to go mobile. This is the logic behind the recent CBN initiative of mobile banking in Nigeria. Mobile phones can be used for financial services provision. Since mobile phones are often more widespread in Nigeria and have a lower threshold for many users than banks do, mobile phones have already facilitated access for low-income households in developing countries. Such hand-held remote transaction tools can be used by several microfinance institutions in the country to process on-the-spot loan applications and approvals.

V.13 CBN can Facilitate Introduction of new Financial Products

It is not compulsory for new products in financial services to come through competition and market forces alone, but also through CBN product intervention and public opinion like the one described above. In South Africa in 2004, for example, the country's four big retail banks along with the post office's Postbank launched the Mzansi Account, a low-cost bank account aimed at extending banking services to the black majority (Napier, 2005). Under the initiative, an account holder requires a minimum deposit of 20 rand (about US\$4) to commence operation. The opportunity was aimed at providing access to financial services to some 13 million low-income South Africans without prior access to bank accounts. This sort of initiative can be introduced into the Nigerian economy also.

V.14 CBN to Engage in more Research on Access to Finance

With three (3) more years to the end of MDGs target, the CBN needs to conduct further analyses of the success of different models aimed at enhancing access and use of financial services to better the life of the vulnerable on:

- ❖ How to enhance the access of the vulnerable groups to financial services;
- ❖ The benefits of access of the small firms and the poor to financial services;
- ❖ The means of intervening in the financial system to enhance access and use of the various products in the financial markets;
- ❖ The political economy factors affecting the access and use of financial services by the poor in Nigerian economy;
- ❖ The effects of having/or not having access and not using the services in the financial market; and
- ❖ Other ways to stimulate access and use of financial services towards meeting the MDGs targets; and

- ❖ The causal relationships between access to finance and various MDG targets as well as financial sector development models and poverty reduction.

VI. Conclusion

At the turn of the century, the world economy was dynamic and a consensus was being formed to find ways to share the benefits of globalisation more broadly. In 2000, therefore, the world agreed on the MDGs, an ambitious set of development targets aimed at reducing poverty and improving the lives of those people living in poverty globally. Countries, large and small, committed to meeting these targets by 2015. This year, 2012, is the defining moment for keeping this global promise, but to do so, countries must accelerate efforts toward meeting the MDGs by the target date. Without doubt, the MDGs would not be achieved in Nigeria if efforts across the board are not accelerated. Strengthened with knowledge and evidence gathered over the past eleven years, Nigeria must seize the opportunity to revitalise the push toward creating an economy that was envisioned for 2015: one that is healthier; better educated; better nourished; and has taken significant steps toward eradicating extreme poverty.

Explanations from this paper revealed that financial sector development can make an important contribution to economic growth and poverty reduction. This is especially likely to be true in Nigeria, whose financial sectors is still developing, and without which economic development of the country as well as achievement of the MDGs may be constrained, even if other necessary conditions are met. It was discovered that the poor in the country, who are the target for the achievement of the MDGs often do not have access to ongoing, formal financial services, and are forced to rely instead on a narrow range of often risky and expensive, informal services. This constrains their ability to participate fully in markets, to increase their incomes and to contribute to economic growth. Thus, formal and semi-formal financial services channels, as mentioned in this paper, could provide inclusion opportunities to the poor (the target group in the MDGs) in Nigeria.

By increasing the savings rate and the availability of savings for investment, facilitating and encouraging inflows of foreign capital, and optimising the allocation of capital between competing uses, further financial sector

development and its inclusion of the poor, as presented in Part IV of this paper in the country can boost long-run growth of the economy as well as the fulfilment of MDGs. Though the scale may be different, access of the vulnerable groups to financial services in the country could reduce poverty through the same channels that affect overall growth: by increasing investment and productivity resulting in greater income generation; and facilitating risk management, thus, reducing vulnerability to shocks.

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Appendix

Indicators of the MDGs

Goal 1: Eradicate extreme poverty and hunger

Target 1a: Reduce by half the proportion of people living on less than a dollar a day

- 1.1 Proportion of population below \$1 (PPP) per day
- 1.2 Poverty gap ratio
- 1.3 Share of poorest quintile in national consumption

Target 1b: Achieve full and productive employment and decent work for all, including women and young people

- 1.4 Growth rate of GDP per person employed
- 1.5 Employment-to-population ratio
- 1.6 Proportion of employed people living below \$1 (PPP) per day
- 1.7 Proportion of own-account and contributing family workers in total employment

Target 1c: Reduce by half the proportion of people who suffer from hunger

- 1.8 Prevalence of underweight children under-five years of age
- 1.9 Proportion of population below minimum level of dietary energy consumption

Goal 2: Achieve universal primary education

Target 2a: Ensure that all boys and girls complete a full course of primary schooling

- 2.1 Net enrolment ratio in primary education
- 2.2 Proportion of pupils starting grade 1 who reach last grade of primary
- 2.3 Literacy rate of 15-24 year-olds, women and men

Goal 3: Promote gender equality and empower Women

Target 3a: Eliminate gender disparity in primary and secondary education

preferably by 2005, and at all levels by 2015

- 3.1 Ratios of girls to boys in primary, secondary and tertiary education
- 3.2 Share of women in wage employment in the non-agricultural sector
- 3.3 Proportion of seats held by women in national parliament

Goal 4: Reduce child mortality**Target 4a: Reduce by two thirds the mortality rate among children under five**

- 4.1 Under-five mortality rate
- 4.2 Infant mortality rate
- 4.3 Proportion of 1 year-old children immunized against measles

Goal 5: Improve maternal health**Target 5a: Reduce by three quarters the maternal mortality ratio**

- 5.1 Maternal mortality ratio
- 5.2 Proportion of births attended by skilled health personnel

Target 5b: Achieve, by 2015, universal access to reproductive health

- 5.3 Contraceptive prevalence rate
- 5.4 Adolescent birth rate
- 5.5 Antenatal care coverage (at least one visit and at least four visits)
- 5.6 Unmet need for family planning

Goal 6: Combat HIV/AIDS, malaria and other diseases**Target 6a: Halt and begin to reverse the spread of HIV/AIDS**

- 6.1 HIV prevalence among population aged 15-24 years

- 6.2 Condom use at last high-risk sex
- 6.3 Proportion of population aged 15-24 years with comprehensive correct knowledge of HIV/AIDS
- 6.4 Ratio of school attendance of orphans to school attendance of non-orphans aged 10-14 years

Target 6b: Achieve, by 2010, universal access to treatment for HIV/AIDS for all those who need it

- 6.5 Proportion of population with advanced HIV infection with access to antiretroviral drugs

Target 6c: Halt and begin to reverse the incidence of malaria and other major diseases

- 6.6 Incidence and death rates associated with malaria
- 6.7 Proportion of children under 5 sleeping under insecticide-treated bednets
- 6.8 Proportion of children under 5 with fever who are treated with appropriate anti-malarial drugs
- 6.9 Incidence, prevalence and death rates associated with tuberculosis
- 6.10 Proportion of tuberculosis cases detected and cured under directly observed treatment short course

Goal 7: Ensure environmental Sustainability

Target 7a: Integrate the principles of sustainable development into country policies and programmes; reverse loss of environmental resources

Target 7b: Reduce biodiversity loss, achieving, by 2010, a significant reduction in the rate of loss

Target 7a and 7b Indicators:

- 7.1 Proportion of land area covered by forest
- 7.2 CO2 emissions, total, per capita and per \$1 GDP (PPP)
- 7.3 Consumption of ozone-depleting substances
- 7.4 Proportion of fish stocks within safe biological limits
- 7.5 Proportion of total water resources used
- 7.6 Proportion of terrestrial and marine areas protected
- 7.7 Proportion of species threatened with extinction

Target 7c: Reduce by half the proportion of people without sustainable access to safe drinking water and basic sanitation

- 7.8 Proportion of population using an improved drinking water source
- 7.9 Proportion of population using an improved sanitation facility

Target 7d: Achieve significant improvement in lives of at least 100 million slum dwellers, by 2020

- 7.10 Proportion of urban population living in slums

Goal 8: A global partnership for development

Target 8a: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system

Includes a commitment to good governance,

development and poverty reduction; both nationally and internationally

Target 8b: Address the special needs of the least developed countries

Includes tariff and quota free access for the least developed countries' exports; enhanced programme of debt relief for heavily indebted poor countries (HIPC) and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction

Target 8c: Address the special needs of landlocked developing countries and small island developing States

through the Programme of Action for the Sustainable Development of Small Island Developing States and the outcome of the twenty-second special session of the General Assembly

Target 8d: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term