Financing Inclusive Growth in Nigeria: Challenges and Prospects

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I. Introduction

Chambers Dictionary, 20th edition, defines Growth as something that has life and is growing or has grown; gradual increase; progress; development; increase in value. It could be in the context of social or economic growth. Social growth means maturing and developing one's skills and learning better how to get along with others. It could also be looked at from the norm and cultural perspectives in appreciating how events which seemed to be primitive in the past are now being done in a more civilized way or fashion.

In Economics, Economic Growth (EG) is defined as the increasing capacity of the economy to satisfy the wants of the members of society. Economic growth can be appreciated by increases in productivity which lowers the cost/input of production, e.g. labour, capital, material, energy etc., for a given amount of output. Economic growth is usually in the long-run provided it is not disturbed by wars, political/religious conflicts or upheavals capable of changing the drivers and leaders of the process.

Inclusive Growth (IG) is growth in its entirety, holistic and comprehensive, including everything. It could be broad-based growth across sectors, shared growth and pro-poor growth. Inclusive growth can be described as economic growth with widest participation and benefits best shared through equal opportunities. It is concerned with opportunities for the majority of the labour force, poor and middle-class alike to participate in the production of goods and services rather than in income redistribution as was done in India some years ago. Inclusive growth is a means for rapid and sustained poverty reduction. Emphasis is on equality of opportunities in terms of access to markets, resources and unbiased regulatory environment for businesses and individuals. In short, Inclusive growth is about raising growth levels and enlarging the size of the economy while providing a level playing field for investment (productivity growth) and increasing employment opportunities.

It is important to note that IG must be tailored to country-specific circumstances. It is market-driven with government playing a facilitating role.

To better understand Inclusive Growth, it may be desirable at this point to explain what Financial Inclusion (FI) is. FI is defined as the provision of access to a wide range of financial services to everyone that needs them. Such financial services include credit, savings, payments, leasing, insurance and financial advice. It is also the delivery of banking services to the vast sections of disadvantaged and low income people.

About 38 million (46.3 per cent) of adult Nigerians are excluded from financial services (EFInA Survey 2010). In South Africa, Kenya and Botswana, it is 26.0 per cent, 32.7 per cent and 33 per cent of their adult population, respectively. These are lower than Nigeria. Achieving IG therefore, will require a corresponding growth in FI.

Deriving powers from its developmental function and its unique position to influence players in the financial system, the Central Bank of Nigeria (CBN) has been promulgating policies, issuing guidelines and playing vital intermediation roles on FI and IG in Nigeria. Many countries in Africa, Asia, Eastern Europe, The Caribbean and South America also engage in promoting FI and IG in their respective countries either directly by their central banks or through specialised development banks/institutions. Such countries include: Indonesia, The Philippines, India, Bangladesh, Croatia, Turkey, Kazakhstan, Colombia, Brazil, Mexico, Ethiopia, Kenya, Uganda, Mauritius, South Africa, Ghana, Sierra-Leone and The Gambia, to mention a few.

II. Functional Sectors Necessary for Inclusive Growth

Growth has to be holistic for meaningful development. For an effective IG, polices must be tailored, by governments, to develop as well as ensure appropriate finance to the following sectors, among others.

II.1 Agriculture

It contributes about 26.8 per cent to GDP; 66.0 per cent of Nigerians are engaged in it; source of income and raw materials for industries (SMEs and LSEs);

value-chain development etc. The massive land areas as well as huge mineral and agricultural potentials to explore are an advantage.

II.2 Small and Medium Scale Enterprises (SMEs)

SMEs are viewed as engine of growth of any nation. SMEs feed Large Scale Enterprises (LSEs); Ensure backward integration e.g. promoting other businesses such as: cement, paint, steel, carpet making, construction materials, agribusiness, e.t.c., in a SME cluster/environment with one another. Another example is in Japan where SMEs feed LSEs of car manufacturing companies with spare parts components.

-Infrastructure-Development of rural/urban facilities like roads, railways, ports, water, energy/power etc.

-Education: Capacity building/Training, improved financial literacy rate, free education and scholarships, consumer protection mechanism etc.

-**Health**: Health is wealth, so good health facilities for all, free/affordable medical facilities and Insurance.

-Housing/Environment: Provision of good and affordable houses, healthy, safe and clean (sanitary) environment as well as mortgage finance and home loans.

-Security: Safety of lives and properties, stable political/democratic environment etc.

-Legal/Land reforms: Credible legal processes, rule of law, human rights, title deeds for physical development.

-**Research and Development**: Accurate, reliable and timely availability of data for planning and implementation of programmes.

III. Financing Inclusive Growth (IG)

IG is a panacea for poverty reduction and economic growth of any nation. Unfortunately, funds/finances have always been limited for its impact to be felt. Governments (State and Federal) make huge annual budgetary provisions to finance or develop the above-mentioned components, necessary for IG. The extent to which these budgets are implemented called for concern.

Individuals who are also involved in promoting IG need to be able to prepare bankable and feasible proposals to attract loans, grants or aids. Usually, collaterals especially the possession of title deeds and tangible properties are required, to back-up loans in case of default.

For a good bankable proposal or feasibility study, it is important that the entrepreneur considers the following to attract lending/finance by the bank. They are usually called the five Cs of credit: Character, Capacity/Capability, Condition, Capital and Collateral. In considering these, the physical, technical, marketing, social-economic and financial aspects of the project must also be addressed.

1. Sources of Finance For The Inclusive Growth Components:

Two major sources: Formal and Informal

(a) Formal Sources: - banks deposit money banks (DMBs), Micro finance banks (MFBs), MFIs, DFIs (BOI, BOA, FMBN), capital markets, international donor agencies/partners, UNDP, IFAD, JICA, GIZ, USAID, Ford, Bill and Mellinda Gate and Foundations.

CBN intervention funds and programmes such as the Agricultural Credit Guarantee Scheme Fund (ACGSF) established in 1977 to guarantee loans granted borrowers by banks in case of default. It guaranteed 757,075 loans valued ₦53.18 billion since inception to March 2012; Agriculture Credit Support Scheme (ACSS) established in 2006 with ₦50 billion; Commercial Agricultural Credit Scheme (CACS) established in 2009 with ₦200 billion. Had disbursed ₦175.52 billion to 222 beneficiaries including 29 state governments as at March 2012.; SME Credit Guarantee Scheme (SMECGS) established in 2010 with ₦200 billion. Had disbursed ₦1.03 billion to 20 projects as at March 2012; SME Refinancing and Restructuring Facilities (SME-RRF) established in 2010 with ₦200 billion. Had disbursed ₦225.64 billion to 487projects as at March 2012; and the

Power and Aviation Intervention Fund (PAIF) established in 2010 with N300 billion. Had disbursed ₦159.14 billion to 27 projects as at March 2012.
The CBN also introduced the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) in 2010. The concept is to de-risk the agricultural and financing value-chains to encourage quality lending to agriculture. NIRSAL programme also aims at increasing bank lending to agriculture from the current 2.0 per cent of total bank lending to 10.0 per cent over seven years.

Other policies/products being developed by the CBN to ensure FI and IG are the granting of Mobile Banking License to stakeholders, the Non-Interest Banking model and other banking reforms. These are aimed at strengthening and stabilizing the financial sector.

These schemes are operated with direct collaboration with banks (DMBs, MFBs/MFIs and DFIs) and the Federal Ministry of Agriculture. The detailed performances of these products are available on the CBN website: www.cbn gov.ng and those of the respective banks/institutions mentioned.

(b) Informal Sources: - Personal savings, co-operative societies, self-help groups, money-lenders, families, friends etc.

2. Practitioners of Inclusive Growth (IG) :

For an effective financing of IG in Nigeria, the following, among others, should be reached or targeted**:**

- Human Targets: youths, employed and unemployed, school-leavers, women, farmers (peasant and commercial), entrepreneurs (Micro, Small and Medium Enterprises-MSMEs), Large Scale Enterprises- (LSEs) and industrialists, pensioners, transporters etc.

- Institutional Targets: government organizations, organised private sector (OPS) practitioners, trade unions etc.

III. Challenges of Financing Inclusive Growth (IG):

The following, in no particular order, are some challenges that may affect the flow of credit or finance to enterprises that would accelerate economic or inclusive growth. They are:-

- Banks' unwillingness to lend to the poor except to mobilize deposits from them and lend to high profile portfolios and invest in capital and foreign markets.

- Inadequate funds/capital to lend, low capital base of many financial institutions, poor savings culture and mobilization, thus reducing cheap and stable fund for the productive sector.

- High cost of funds (interest rate), high inflation and foreign exchange rates, high rate of financial illiteracy, low bank branch/retail penetration, lack of adequate payment system infrastructure, absence of a wide variety of alternative modes of financial intermediation e.g. capital market and inadequate consumer protection mechanism to encourage lending/borrowing.

- Inadequate collaterals for big loans and meeting the obligation of the guarantee by borrowers who aim at growing the economy.

- Poor provision of enabling environment (level playing field) by government to maximize production prices and create employment; failure of which leads to inflation, poverty, disease, hunger, anger and terror on fellow citizens.

- Filthy/dirty and unhealthy dwelling environment (to live and work) to ensure soundness of mind, good thinking, innovation and productivity, contrary to what exists in more developed countries.

- Inadequate financial skills and inability to identify/present bankable and feasible projects for finance. There is that tendency to propose grandiose, non-grass root, non-felt need and non-poverty eradication-oriented projects.

- Some bank staff also lack skills to analyse and develop bankable projects as well as develop products tailored to meet the exclusive group.

- Poor infrastructure and difficulty of doing business in Nigeria e.g. high electricity tariff or provision of energy for MSMEs, lack of good roads, water, market, communication, poor legal framework for equity and justice.

- High credit risk arising from high default rate (deliberate default, climate change and natural disaster causes). Other risks include: market, operational and liquidity risks.

- Insecurity of lives and properties, incessant tribal, political, religious wars or disturbances.

- Poor co-operative culture among Nigerians to form businesses, develop and sustain them.

- Poor corporate governance and weak internal controls/audit systems of financial institutions and businesses.

- High incidence of fraud, bribery, nepotism, tribalism and corruption which compromise trust as well as confidence in the society.

- Impunity and lack of sanctions on erring persons/organizations.

- Discontinuation of projects/programmes (abandoned projects) by new governments or organizations thus leading to financial drain - pipes and wastes.

- Improper planning, monitoring and evaluation of programmes by government, (especially in areas of comparative advantage) which could attract funding.

- Under-developed micro-insurance and micro-housing finance/mortgage schemes.

IV. Way Forward

It is important that governments, individuals and organizations concerned provide the following to enable holistic growth, economic growth, inclusive growth and the attendant financing. They include:-

i. Providing more funds, loans, finances to the productive sector including housing mortgage. Need for early operation of the long proposed National Micro-finance Development Fund (NMDF) of the CBN.

ii. Financial literacy. Enlightenment on how to prepare bankable projects, sources of finance and how to manage them, proper market channels, value-chain management, consumers protection rights etc.

iii. Establishment of Entrepreneurship Development Programmes and Centres to develop business skills, models, education, knowledge and information.

iv. Properly equipping financial institutions with quality staff, train, re-train and retain them as well as ensuring appropriate rewards /sanctions.

v. Providing technical assistance and market linkages for MSMEs.

vi. Effective regulation and supervision of banks by the CBN would ensure sound and stable financial system. The banks/MFIs would thus be able to absorb stress/shocks and lend to enterprises that would promote growth in the economy. Furthermore, the CBN should strictly embark on full regulation and supervision of mobile banking services and electronic payment system /devices, e.g. ATM, Internet (on-line) banking, points of sale (POS) terminals/services, now operational in the financial system, if it has not commenced it.

vii. Agent banking should be introduced, as early as possible, to complement other financial products/services.

viii. Appropriate organs of government should be able to provide incentives to investors in the form of genuine capital grants, tax holidays, export rebates and liberalized Visa regimes by granting long term (5 to 10 years) visas to genuine and frequent investors travelling to Nigeria.

ix. Efforts should be made by all to promote savings so as to free more money for investment, economic and inclusive growth.

x. Promoting micro-insurance for MSMEs and micro-housing/mortgage schemes for safety and good health of majority of urban poor/dwellers to enable them give their best in innovation and production.

xi. Ensuring good governance and ethical practices at all levels of governments and corporate organizations.

xii. Strengthening partnership/collaboration with best global partners/ organizations to up-scale Nigeria's standards.

xiii. Consistent government policies and completion of physical projects or programmes of past governments by new governments. No more abandoned projects to ensure continuous growth.

xiv. Proper planning, monitoring and evaluation of projects/programmes by governments especially in areas/sectors of comparative advantage to them.

xv. Developing infrastructure for businesses to thrive, create employment and particularly engage youths and women.

xvi. Providing and ensuring adequate security for all by government.

xvii. Combating/Fighting fraud, corruption and other socio-economic vices and crimes, without discrimination, to ensure trust and confidence in the business environment.

xviii. Everyone should work assiduously and patriotically, devoid of profligacy and ostentatious living amidst the majority of the poor in the society.

V. Conclusion and Prospects

Nigeria needs a holistic, an aggressive and sustainable growth in all sectors of the economy. These sectors need financial support through government, individuals and strategic partnership with foreign donor agencies and institutions. However, prudent and sincere application/utilisation of these financial resources will ensure effective FI), IG and EG.

Effective IG and EG will provide gainful employment, develop MSMEs, halt rural-urban migration and forced slave labour outside the shores of the country, which led to the embarrassing repatriation of some Nigerian youths from some African and European countries recently. Financing IG and creating awareness to the financially exclusive persons is paramount for socio-economic development of Nigeria.

Sustainable IG and EG would promote export of goods and services, foreign exchange earnings, foreign direct investment (FDI) and remittances from Nigerians in the Diaspora to Nigeria. These will improve the general standards of living of parents and relations at home, health and housing, infrastructure and reduce the poverty level.

With continuous and appropriate banking reforms and sanity in all sectors of production, peace and stability in the country, political will by government to finance IG, Nigeria would be able to achieve its Vision 20:2020, the Millennium Development Goals (MDGs) and the Transformation Agenda of government, timely. Nigeria has huge human and vast physical resources to explore, to achieve greatness.

References : EFINA (2010). Access to Financial Services Survey.