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EXPOSURE DRAFT OF THE NATIONAL FINANCIAL INCLUSION STRATEGY REFRESH

In 2010, Nigeria made a commitment to reduce the adult financial exclusion rate in the country from 46.3% to 20% by the year 2020. In order to attain this target, the National Financial Inclusion Strategy (NFIS) was launched on October 23rd, 2012.

While some notable milestones have been achieved, overall financial exclusion rate stands at 41.6% based on the biennial Access to Financial Services in Nigeria Survey (EFInA, 2016). The Central Bank of Nigeria has been working with various stakeholders to conduct a review and refresh of the Strategy. The exercise focused on evaluating progress, identifying gaps and developing a refreshed strategy document which serves as a roadmap for implementation till the terminal year 2020.

In view of the above, we hereby attach the ***Exposure Draft of the National Financial Inclusion Strategy Refresh*** for comments and observations. The document can also be accessed on the website: www.cbn.gov.ng.

Kindly send hard copies of all comments and observations to the undersigned while electronic copies should be emailed to takin-fadeyi@cbn.gov.ng and jaattah@cbn.gov.ng (Financial Inclusion Secretariat) within two weeks from the date of this letter.

Please accept the assurances of our esteemed regards.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Mudashiru Olaitan'.

Dr. Mudashiru Olaitan
Director, Development Finance Department

**Exposure Draft of the
National Financial Inclusion Strategy
Refresh**

July 6, 2018

Orientation to the strategy: National Financial Inclusion Strategy – the journey from 2012 to 2018

In 2012, the Central Bank of Nigeria (CBN) adopted the National Financial Inclusion Strategy (NFIS). The document articulated the challenges in financial inclusion; identified areas of focus, key performance indicators (KPIs) and targets; and described the implementation structure. The strategy was built on the four strategic areas of *agency banking, mobile banking / mobile payments, linkage models* and *client empowerment*. Based on these strategic areas, four topics were prioritised for guideline and framework development: *tiered know-your-customer (KYC) regulations, agent banking regulations, national financial literacy strategy* and *consumer protection*.

Driven by the identified barriers, the NFIS defined a large set of metrics and targets by *product, channel* and *enablers*. These targets were further broken down into targets for access, usage, affordability, appropriateness, financial literacy, consumer protection and gender. The NFIS proposed strategies for each of these elements, which included a comprehensive set of policy and regulatory changes as well as suggested business models. In the implementation of the strategy, the targets were further tailored to reflect the needs and challenges of individual financial service providers (FSPs).

In line with the 2012 NFIS monitoring plan, a “review and refresh” was conducted in 2017 – 2018. This document starts with key findings from the review and then continues with the proposed refreshed NFIS. Key messages include:

- Financial inclusion is recognised broadly as an important priority; a variety of cross-departmental and cross-entity working groups have been established to work towards achieving inclusion
- Overall, Nigeria has failed to meet its financial inclusion targets due to a variety of factors; a step-change in the pace of progress is needed to close the sizeable gap between the current status and the targets
- Intense stakeholder engagement made it clear that the 2012 strategy and the detailed set of targets (across products, channels and enablers) are not optimal in the current situation:
 - o Some of the elements of the strategy focused on solutions (such as point-of-sale terminals) which are no longer the appropriate or most efficient channel for distribution, thanks to technological advancements.
 - o The detailed set of metrics and regulations (e.g., fixed fees for certain transactions) limits the range and variation of business models that can be deployed and thus constrains the field of actors for whom it makes business sense to engage in the space. Contrary to its desired outcome, the strategy has limited growth in the number and range of providers, products and partnerships.
 - o A variety of innovators and innovative models, which in other countries have contributed to a substantial increase in inclusion, have not been able to come to full fruition as existing policies and regulations do not allow for their engagement.
 - o The comprehensive nature of the strategy has meant that not enough emphasis has been placed on some of the more foundational constraints, such as the limited agent network.
 - o The challenging macroeconomic and security context within which the strategy has been implemented has further exacerbated this constraining effect.

The refreshed strategy recognises (1) the need for priority focus on the foundational constraints, (2) the value that innovation can bring and (3) the need to create an environment in which innovation

that advances financial inclusion can exist and thrive, whilst being managed appropriately. Guided by these tenets, the refreshed strategy is based on a first-principles approach. It recognises the various core mandates that need to be managed to develop a solid, stable yet inclusive financial system and identifies the principles that need to be in place to manage and govern financial services. From the principles, the refreshed NFIS derives actions. The refreshed metrics and targets focus on outputs and outcomes, without seeking to prescribe a specific approach to or structure of the business model. This creates flexibility to enable variation and innovation in business models whilst keeping a focus on achieving outputs and outcomes.

As a quick reference, Table 1 outlines the important changes and continuities between the 2012 NFIS and the 2018 refreshed NFIS.

Table 1: Connection between 2012 NFIS and 2018 NFIS refresh

2012 NFIS	2018 NFIS refresh
Chapter 1. Introduction (definition, strategic objectives and rationale for CBN engagement)	Not changed – repeated in context-setting
Chapter 2. Strategy stakeholders and their interest	The revised strategy refers to key stakeholders and their financial-inclusion-related activities in the current situation
	Chapter 1. Introduction and context, articulating overview of 2012 NFIS, rationale and methodology for refresh
Chapter 3. Current state of financial inclusion	Chapter 2. Current situation: Refreshed in full with updated data, reflection on performance against targets, key findings from the review and key barriers to further growth of inclusion
Chapter 4. International benchmarking on financial inclusion – comparison both overall and by product, channel and key enabler (driving targets)	Not included as a separate chapter per se—in the 2012 version, this served to determine targets. In the 2018 refresh, specific international case studies illustrate the application and the impact potential of the design principles (on a topic-by-topic basis) and serve to calculate the higher end of target ranges (in line with AFI methodology)
Chapter 5. Major challenges to financial inclusion in Nigeria	Part of chapter 2. Current situation. More granular description of the challenges based on the years of experience since 2012 NFIS.
Chapter 6. Key financial inclusion targets (for product, channel and enablers, and KPI)	Not applicable at a product and channel level as that would be overly prescriptive. Instead, the implementation plan (chapter 5) has outcome targets
Chapter 7. Strategies for achieving financial inclusion targets	Chapters 3, 4 and 5: strategic principles, design principles per priority barrier/ topic and implementation plan
Chapter 8. Proposed key stakeholder roles and responsibilities	Chapter 5, implementation plan—in the revised version, accountability is defined per key action to facilitate holding people to account
Chapter 9. Possible risks and their mitigation	The international case studies per topic / barrier describe pitfalls as experienced in other situations
Chapter 10. Implementation plan	Chapter 5, implementation plan
Chapter 11. Monitoring and evaluation	Chapter 5, implementation plan
Chapter 12. Tracking methodology	Chapter 5, implementation plan
Chapter 13. Conclusion	Replaced by upfront executive summary

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Executive summary

Nigeria has not met targets

At present, Nigeria is not on track to meet the 2020 targets set out in the National Financial Inclusion Strategy (NFIS) of 2012. The NFIS set two financial inclusion targets for the year 2020: an *overall* financial inclusion rate of 80% of the adult population and a *formal* financial inclusion rate of 70% of the adult population. As of 2016, just 58.4% of Nigeria's 96.4 million adults were financially served and only 48.6% of all adults used formal financial services. The NFIS defined an additional 15 targets for channels, products and enabling environment, as well as 22 key performance indicators (KPIs) related to these targets. Across all these measures, Nigeria lags inclusion targets.

Still, promising developments have emerged, especially in recent times, as new stakeholders have joined the push for financial inclusion. For instance, the Central Bank of Nigeria (CBN) and the Nigerian Communications Commission signed an MoU on digital payment systems in 2018. Also in the same year, CBN collaborated with the Nigeria Inter-Bank Settlement System (NIBSS) to create a regulatory sandbox that will allow financial technology start-ups to test solutions in a controlled environment and is partnering with the private sector to roll out a 500,000-agent network to offer basic financial services. In addition, several players in the private sector have introduced new products and services aimed at the unserve/underserved, and new partnerships are driving the delivery of digital financial services more widely—programmes have been launched to boost access to finance specifically for excluded groups such as women and micro, small and medium-sized enterprises.

Issues constraining growth

Macroeconomic realities and constraints on the implementation of the NFIS have impacted the status of financial inclusion in Nigeria. Much has changed in the Nigerian context since the original NFIS document was written, especially regarding the economy, security and technology. Unforeseen socioeconomic shocks, such as the economic recession and the security situation in parts of Northern Nigeria, have hampered the progress of financial inclusion. Furthermore, Nigeria's slow uptake of digital financial services (DFS) and limited rollout of national identity numbers (restricting the ability of financial service providers to meet know-your-customer (KYC) requirements) represent ongoing impediments.

New lessons and priorities have been identified since the inception of the NFIS, and some of the limitations of the 2012 approach have become clear. These changes and insights need to be reflected in Nigeria's strategy to more adequately address financial inclusion. The limitations of the 2012 report included a lack of prioritisation across a long list of actions and KPIs, as well as an outdated set of solutions, some of which, as innovation advanced, became increasingly suboptimal in their prescribed methods. In the refreshed NFIS, priorities have been defined based on a new approach that is deliberately more "future-proof" in its focus on first principles, instead of specific approaches that have the potential to become obsolete.

A new first-principles approach

The refreshed strategy is based on a first-principles approach. It recognises the various core mandates that need to be managed to develop a solid, stable yet inclusive financial system and identifies the principles that need to be in place to manage and govern financial services. The strategy outlines two overarching principles, and several topic-specific principles, addressing the

priority action points. It is critical to note these principles are to be adopted as an inseparable set, collectively important to drive financial inclusion in the Nigerian context. Strategy implementation must take all the principles into consideration, and not a just selection. The refreshed metrics and targets focus on outputs and outcomes, without seeking to prescribe a specific approach to or structure of the business model.

First, an appropriately regulated level playing field supports the building and growth of a services market. For regulation to support inclusion, it should focus on the activity, not the actor. The object of regulation must be to prescribe what eligibility conditions a party needs to meet to provide a particular service, without closing off the sector from future innovation. Specifically, this entails:

- Ensuring that the same set of regulatory requirements and conditions apply to all potential providers of a given service, regardless of their background or type of operation.
- Taking into account that the playing field, in some cases, is currently uneven and reflecting this in targeted, *activity-focused* requirements. Ensuring that regulations are balanced across various objectives—for example, the set of licensing requirements should both maintain financial system sustainability *and* create incentives to drive towards financial inclusion.

Second, impact is likely to be greatest when each actor focuses on activities that best suit its capacity whilst all maintain an inclusive lens as much as possible. Given the complexity and volume of changes that need to happen to achieve financial inclusion, focus on “comparative advantage” is important. This has three specific implications:

- All actors should continuously apply a lens of inclusivity to their activities in order to ensure that they are focusing on impact for particularly excluded groups such as women, micro, small and medium-sized enterprises (MSMEs) and people living in the north.
- The government should create an appropriate regulatory context in which innovation can take place.
- Public and local or international philanthropic resources (funding and non-financial resources) should focus on: (i) creating public goods (in a pre-competitive setting) which may not be viable to invest in for any one private sector actor but which strengthen the business case for subsequent investment by the private sector; and (ii) overcoming obstacles that hinder the business case for private sector actors.

Priority actions and time frame

Based on the most pressing barriers and the guiding principles of the refreshed strategy, five priorities emerge as most crucial to increasing financial inclusion in Nigeria:

1. **Create a conducive environment for the expansion of DFS.** DFS has proven to be a low-cost approach to reaching unserved and underserved customers; across the world, advancement of DFS goes hand in hand with financial inclusion improvements.
2. **Enable the rapid growth of agent networks with nationwide reach.** Agents—particularly cash-in / cash-out (CICO) agents—act as the entry point for financial inclusion and facilitate the crucial conversion between cash and digital money.
3. **Reduce KYC hurdles to opening and operating a bank account.**
4. **Create an environment conducive to serving the most excluded,** so that inclusion efforts do not focus solely on the ‘lowest hanging fruit’ (and thereby increase inequality).
5. **Drive adoption of cashless payment channels, particularly in government-to-person and person-to-government payments,** in order to (a) establish trust by leading by example, (b) provide a sufficient load volume to drive the business case for building and growing

distribution networks and (3) put in place a forcing mechanism to include large numbers of unserved and underserved people.

The strategy derives actions for each of these priorities and assigns them high-, medium-, or low-priority status, lays out a time frame for completion and suggests entities responsible for leading or supporting each action.

In order to coordinate the recommended actions, the Financial Inclusion Secretariat (FIS) should be granted top-level convening power across relevant parts of government, as opposed to primarily within the Central Bank, and should engage key private sector players at the most senior levels.

Monitoring and evaluation

The measurement framework includes both existing and aspirational metrics in order to create a truly accurate picture of progress toward inclusion in the coming years. In addition to an overall outcome indicator (total inclusion), the M&E framework includes dashboard indicators that will be used to track early progress towards the outcome on a more regular basis, as data become available.

Exposure Draft

1 Introduction and context

1.1 Overview of the 2012 National Financial Inclusion Strategy (NFIS)

Coordinated efforts to address the financial inclusion gap in Nigeria can be traced back to the development of the National Financial Inclusion Strategy in 2012. The 2012 strategy defined financial inclusion as “when adults in Nigeria have access to a broad range of formal financial services that are affordable and meet their needs”, and set out the target for overall financial inclusion at 80%, with a long list of more detailed targets, recommendations and an implementation plan to achieve the goals by 2020.

- Targets:** The two overall financial inclusion targets were 80% total financial inclusion and 70% formal financial inclusion by 2020. There were 15 additional targets for channels, products and enabling environment as well as 22 key performance indicators (KPIs) related to these targets.
- Strategic recommendations:** The strategy contained a highly comprehensive set of actions, in no particular order of priority or sequence. These actions resulted in approximately 70 strategic recommendations mapped against the 15 channel, product and enabling environment targets.
- Implementation approach:** The 2012 strategy outlined the plan for the creation of the Financial Inclusion Secretariat and its governance structures, including the plans and timeline for a coordinating body. It included action items for key stakeholders, a monitoring and evaluation framework and proposals for financial inclusion pilots.

Figure 1: Summary of 2012 National Financial Inclusion Strategy targets and strategic recommendations

The 2012 NFIS sets out two overall targets, 15 product / channel / enabler targets, 22 KPIs and ~70 strategic recommendations

Nigeria National Financial Inclusion Strategy 80% total financial inclusion by 2020 70% formal financial inclusion by 2020		
Products	Channels	Enablers
Payments Target 70% penetration <ul style="list-style-type: none"> Implementation of agent banking regulations Promotion of MFB-DMB links for on-lending Development of guidelines for operating mini branches Rollout of cashless Nigeria project in all states Provision of NIMC to all Nigerians by 2015 Implementation of the MSMEDF 	DMB branches Target 7.6 per 100,000 adults <ul style="list-style-type: none"> Development of guidelines for mini branches 	KYC Target: Implementation of a tiered KYC framework by 2012 and National ID / Unique number for all Nigerians <ul style="list-style-type: none"> Implementation of tiered KYC regulation Provision of National ID to all Nigerians by NIMC Awareness campaign on tiered KYC requirements
Savings Target 60% penetration <ul style="list-style-type: none"> Implementation of national savings programme Promotion of a basic no frills savings account Implementation of tiered KYC requirements Implementation of a financial literacy framework Implementation of a consumer protection framework Policies to support linkages to informal savings groups 	Microfinance branches Target 5.0 per 100,000 adults <ul style="list-style-type: none"> Implementation of the revised MFI policy Implementation of the MSMEDF Creation of incentives for rural branch expansion Increased promotion of shared services initiatives Holding of investor fora at state level to encourage HNWI to float MFBs 	Financial literacy Target: Financial literacy curriculum in 20% of primary schools, 50% of secondary schools, and 100% of tertiary schools by 2020 <ul style="list-style-type: none"> Implementation of the financial literacy framework Collaboration with Federal and State Ministries of Educ. to implement financial literacy curricula in schools Collaboration between CBN and financial services providers to implement financial literacy campaigns
Credit Target 40% penetration <ul style="list-style-type: none"> Removal of credit bureaux minimum reporting balance Initiation of land reform act Development of a collateral registry for movable assets Implementation of tiered KYC requirements Implementation of entrepreneurship training Introduction of credit awareness programmes Implementation of the MSMEDF and NISRAL Provision of National ID to all Nigerians via NIMC 	ATMs Target 59.6 per 100,000 adults¹ <ul style="list-style-type: none"> Implementation of financial literacy framework Deployment of multifunctional ATMs Revision of the offline ATM policy Rollout of the cashless Nigeria project across states Deployment of low cost ATMs in rural areas 	Consumer protection Target: Defined consumer protection framework implemented by 2020 <ul style="list-style-type: none"> Impl. of the consumer protection framework by 2020
Insurance Target 40% penetration <ul style="list-style-type: none"> Regulatory enforcement of compulsory insurance Use of banking agents as a distribution for insurance Diversification of insurance products incl. micro Implementation of insurance component of NISRAL Introduction of insurance literacy programmes Develop consumer protection framework in insurance 	PoS Target 850.0 per 100,000 adults <ul style="list-style-type: none"> Implementation of the financial literacy framework Requiring MNOs to give priority to transactions to ensure instant crediting and debiting Development of a framework for agent banking Rollout of cashless Nigeria project in all states Expansion of the Evidence Act allowing e-payments as evidence Increase in public awareness of mobile payments 	Women initiatives no target specified <ul style="list-style-type: none"> Targeting 60% of the MSMEDF women Targeting 30% of staff at MFBs to be women Requiring minimum 30% female staff at MFBs Encouraging women to become agents Offering tailored women entrepreneurship development and financial linkage programmes Introduction of specialized fin. lit. framework for cultural issues contributing to exclusion for women Interest drawback schemes targeting women
Pensions Target 40% penetration <ul style="list-style-type: none"> Implementation of Pension Reform Act Pension scheme compulsory for all states Inclusion of small firms/coops/asc in pension scheme Pension awareness and literacy programmes Consumer protection framework in pensions 	Agent Banking Target 62.0 per 100,000 adults <ul style="list-style-type: none"> Implementation of agent banking regulations Implementation of the financial literacy framework Implementation of tiered KYC requirements 	Children and Youth Initiatives Target: Ensure 50% of the 4 million new adults every year are financially excluded <ul style="list-style-type: none"> Development and implementation of a framework for child and youth finance Implementation of children and youth financial literacy initiatives in Nigerian educational institutions

Not pictured: 22 key performance indicators (KPIs)

¹While the main NFIS states a target of 203.6, the 59.6 target is listed in the 2012 NFIS summary report and is used in FIS Annual Reports. The 2012 NFIS duplicates certain recommendations
Source: 2012 NFIS

1.2 Background to the NFIS Review and Refresh

Given the positive effects of increased access to finance, building inclusive financial systems has become an important objective for policymakers around the world. In 2010, the G-20 produced a set of recommendations known as “The Principles for Innovative Financial Inclusion”. The following year, the Alliance for Financial Inclusion (AFI), a global network of concerned policymakers and supervisors, developed the “Maya Declaration”, the first set of global and measurable commitments to financial inclusion. The declaration, which has been endorsed by over 80 countries—including Nigeria, commits to:

- Creating an enabling environment that increases access and lowers costs of financial services, including through new technology;
- Implementing a proportionate regulatory framework that balances financial inclusion, integrity and stability;
- Integrating consumer protection and empowerment as a pillar of financial inclusion; and
- Using data to inform policies and track results.

The reasons for reviewing and refreshing the strategy in Nigeria now are multi-fold, based on the context as well as best practices.

- The original strategy included a provision that the document would be reviewed and refreshed at the mid-point of the strategy.
- Nigeria is a member of the Maya Declaration Initiative and an early adopter of some best practices in financial inclusion. These best practices call for a review and refresh of strategy documents. As of 2016, 30 countries had developed a National Financial Inclusion Strategy, with a further 23 countries being in the process of formulating a NFIS. Nigeria is one of many Maya Declaration initiative members recognising the need to refresh its strategy in light of changing country contexts and to incorporate up-to-date best practices.
- Nigeria lags behind NFIS 2012 financial inclusion targets, and several gaps have been observed in the strategy around the need to (i) strengthen coordination with states; (ii) incorporate women, disadvantaged groups, MSMEs and geographical variations; and (iii) develop a practical monitoring and evaluation (M&E) approach.
- Much has changed in the Nigerian context since the original document was written, especially with regard to the economy, security and technology. New lessons and priorities have been identified since the inception of the document. These changes and insights need to be reflected in Nigeria’s strategy to more adequately address financial inclusion.

The strategic objectives of the financial inclusion strategy review and refresh are:

- Assess performance of the existing strategy (2012-2017) to understand the implementation progress so far, determine whether interventions are on course to meet goals and identify approaches and key issues.
- Develop a revised strategy document (2018-2020) that covers the current state of financial inclusion, identifies new initiatives to increase financial inclusion and updates existing implementation arrangement (including the FIS).

1.3 Relevance of financial inclusion

There is global consensus that financial sector development makes two mutually reinforcing contributions to poverty reduction through its impact on economic growth (finance for growth) and direct benefits to the poor using financial services. An increasing body of evidence¹ shows that appropriate financial services can help improve household welfare and spur small enterprise activity. There is also macroeconomic evidence² to demonstrate that economies with deeper financial intermediation tend to grow faster and reduce income inequality.

For Nigeria specifically, past research shows the potential economic benefits of digital financial services (DFS). These benefits include³:

- **Greater financial inclusion**—46 million new individuals included
- **GDP boost** of 12.4% by 2025 (USD 88 billion)
- **New deposits** worth USD 36 billion
- **New credit** worth USD 57 billion
- **Three million new jobs**
- **Reduction in government leakage** annually of USD 2 billion

As such, financial inclusion is critical to the economic recovery and growth of Nigeria. Senior political leaders including the current Vice President have made public statements that emphasise the importance of financial inclusion, most recently during the official visit of the UN Secretary-General's Special Advocate for Inclusive Finance for Development⁴ to Nigeria in November 2017. Government officials have also emphasised the need to act swiftly and collaboratively to accelerate progress towards financial inclusion by “propagating digital financial services as simple, flexible and easy alternative channels for reaching our remote areas and rural hinterland”⁵.

Given the importance of financial inclusion, it is crucial to have a strong strategy for achieving the financial inclusion goals and targets that have been established by the Central Bank of Nigeria (CBN). The goal of this strategy is to realise a financial system that is accessible to all Nigerian adults, at an inclusion rate of 80%, and to promote the country's economic growth.

¹ Beck, Thorsten; Demirgüç-Kunt, Asli and Levine, Ross, “Finance, Inequality and the Poor”, 26 January, 2007.

² Cull, Robert; Ehrbeck, Tilman; Holle, Nina, “Financial Inclusion and Development: Recent Impact Evidence”, 29 April, 2014 – as published by CGAP.

³ McKinsey Global Institute, “Digital Finance for All”, Nigeria, 2016

⁴ Queen Maxima of the Netherlands (UN Secretary-General's Special Advocate (UNSGSA) for Inclusive Finance for Development).

⁵ Statement by Godwin Emefiele, CBN Governor during the UNSGSA's visit in November 2017; <http://www.tribuneonlineng.com/nigeria-reduce-financial-exclusiveness-20-2020-emefiele/>

1.4 Strategy review and refresh methodology

The strategy review was a backward-looking assessment of the 2012 NFIS based on a comprehensive review of existing research, reports and databases and extensive stakeholder engagement (see Figure 2 for strategy review methodology and Figure 3 for stakeholder groups engaged). The review aimed to understand the current state of financial inclusion in Nigeria and determine the barriers to achieving broader inclusion. Past approaches to resolving the barriers were examined for lessons they might offer for the refresh phase. The barriers to financial inclusion were also assessed to prioritise those most critically in need of being addressed in order to drive the inclusion agenda.

Figure 2: NFIS 2012 review methodology

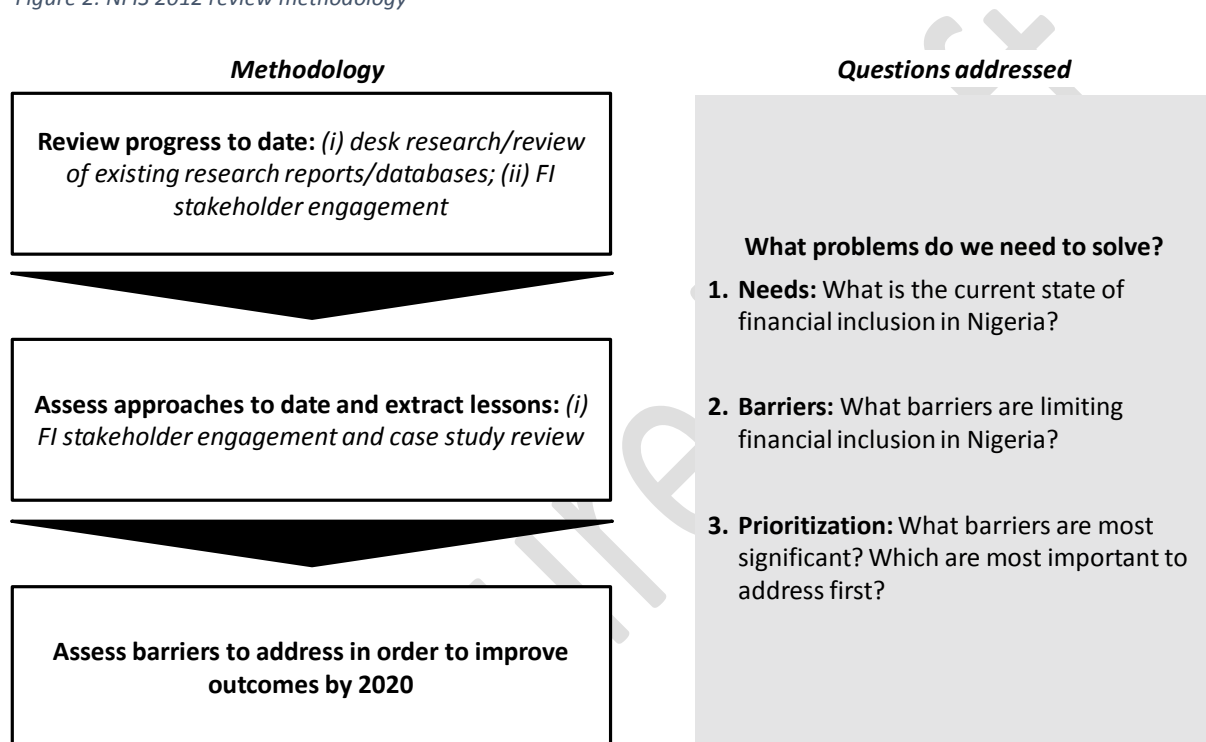
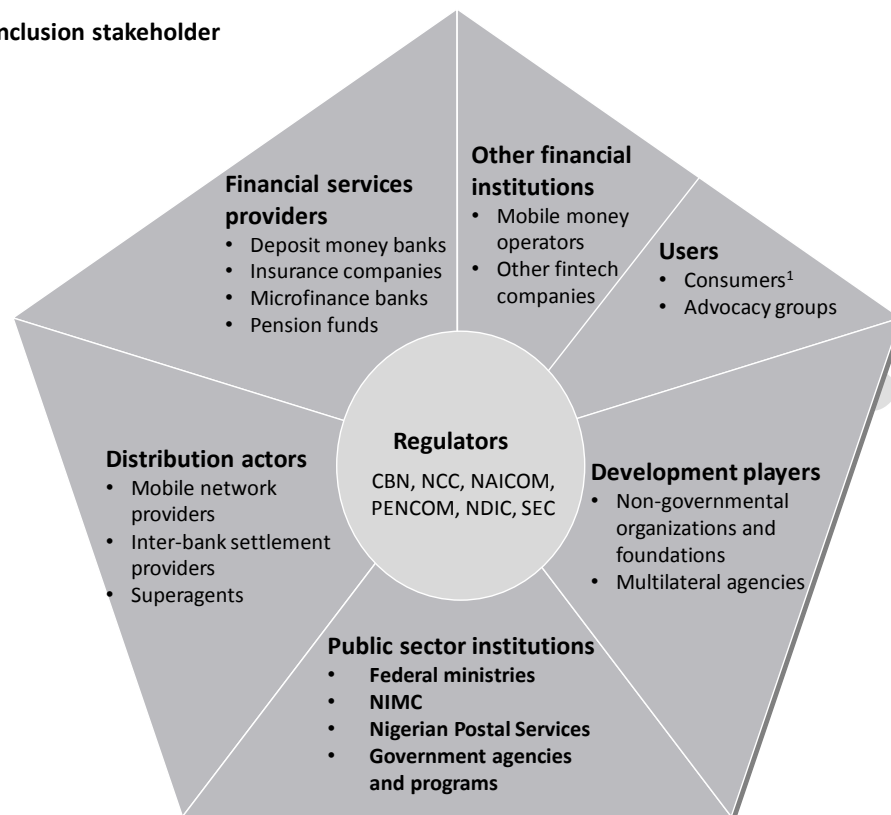


Figure 3: Stakeholder groups engaged

Nigeria’s financial inclusion stakeholder landscape



1 Partially through other activities related to financial inclusion in Nigeria, running in parallel or prior to the NFIS review and refresh
Source: Stakeholder interviews

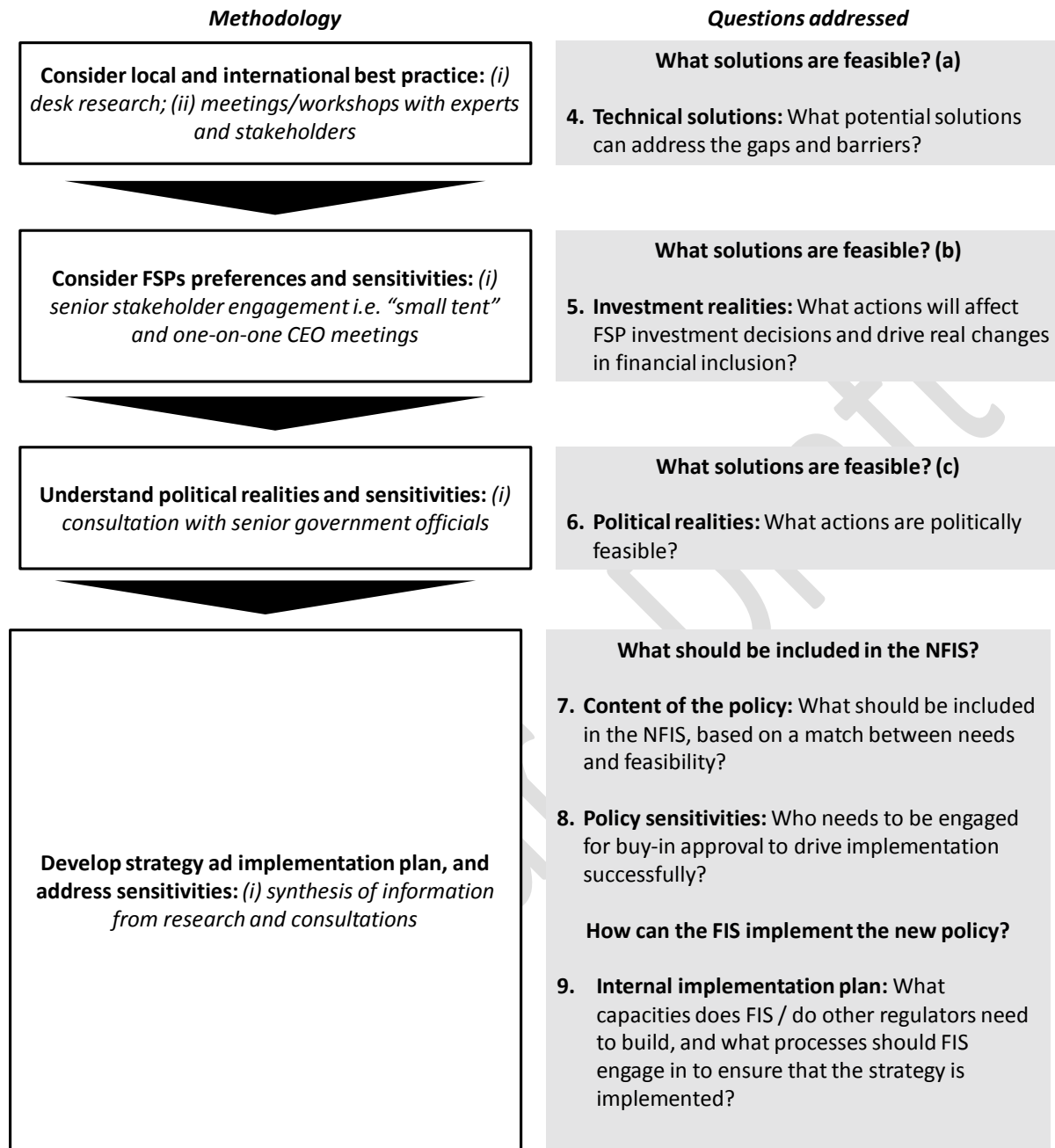
The strategy refresh was more forward-looking, applying lessons learned from the review phase to the development of a new strategy. The process (see Figure 4) also included extensive stakeholder engagement and literature review, with exploration of international success stories to derive insights into the strategic principles applicable to the Nigerian situation.

This strategy refresh document provides revised objectives, priorities and principles for driving financial inclusion in Nigeria. This document was developed with input from a broad range of interviewees, working groups, data sources and reports (see Figure 4 for methodology):

- a. Guidance and direction from a “core team” of key stakeholders from within and outside CBN
- b. Over 50 interviews, numerous group discussions and workshops with various stakeholders
- c. Experience and insights from direct engagement with Nigerian consumers
- d. Supply-side assessment of existing financial products and services
- e. Assessment of the regulatory framework for financial inclusion
- f. A nationally representative, demand-side survey of individuals (EFInA, Access to Financial Services in Nigeria Survey, 2016)
- g. Globally relevant resources that complemented and informed country-specific resources and analyses⁶

⁶ See annex for table of resources used.

Figure 4: NFIS 2012 refresh methodology



2 Current situation

When the NFIS was launched in 2012, it contained 70 strategic recommendations for advancing inclusion. Furthermore, it defined targets for overall financial inclusion as well as targets specific to products, channels and enablers.

2.1 Policy and regulation driven by 2012 NFIS

At present, Nigeria lags behind inclusion targets across every measure and is not on track to meet the targets by 2020. However, some recent developments launched since completion of the strategy review may help drive inclusion over the next two years:

- **Memorandum of understanding (MoU) on payments systems:** The CBN and the Nigerian Communications Commission (NCC) signed an MoU, with both parties agreeing to jointly implement a payment systems framework.
- **Regulatory sandbox for fintech:** The CBN, in collaboration with the Nigeria Inter-Bank Settlement System (NIBSS) created a regulatory sandbox that will allow fintech start-ups to test solutions in a controlled environment.
- **Development of Shared Agent Network Expansion Facilities (SANEF):** The CBN, Deposit Money Banks (DMBs), Mobile Money Operators (MMOs) and super-agents have designed a programme for aggressive rollout of a network of 500,000-agents to offer basic financial services, including cash-in / cash-out (CICO), funds transfer, bill payments, airtime purchase and government payments. Agents will also provide remote Bank Verification Number (BVN) enrolment services.

Table 2 shows a list of other developments driven by public sector actors.

Similarly, in the private sector, several players introduced new products and services aimed at the unserved/underserved. Some of these include “no-frills” savings accounts, Unstructured Supplementary Service Data (USSD) account opening and funds transfer service, non-interest banking products and financial instruments, multifunctional ATMs (for withdrawal, deposit and other services) and micro-insurance. More recently, new partnerships between players are driving the delivery of digital financial services (DFS) more widely, and programmes have been launched to boost access to finance for excluded groups such as women and micro, small and medium-sized enterprises (MSMEs). More concerted effort by private sector players will be essential to further driving financial inclusion.

Six years after the release of the NFIS, the status of financial inclusion has been impacted by both macroeconomic realities and constraints on the strategy’s implementation. Financial inclusion was affected by unforeseen socioeconomic shocks, such as the economic recession and the security situation in parts of Northern Nigeria. Furthermore, Nigeria’s slow uptake of DFS and limited rollout of national identity numbers (restricting the ability of financial service providers to meet KYC requirements) together have hampered financial inclusion.






EXPOSURE DRAFT

Table 2: Selected policies / programmes development / revisions following release of NFIS 2012

Regulators' financial inclusion related activities

Regulators (1/3)	Key FI related activities	Key wins
 <p>Central Bank of Nigeria</p>	<ul style="list-style-type: none"> • Formulation and implementation of policies, innovation of appropriate products and creation of enabling environment for financial institutions to deliver services in an effective, efficient and sustainable manner • Supply of finance to different sectors of the economy • Financial inclusion target setting for financial institutions 	<p><i>Highlighted achievements:</i></p> <ul style="list-style-type: none"> • Inauguration of National Financial Inclusion Secretariat, Steering Committee, Technical Committee and working groups • Geospatial Mapping Survey of financial access points in Nigeria • Revision of (i) microfinance policy; (ii) bank charges; (iii) 3-tiered KYC; and (iv) mobile money owner wallet transactions and BVN requirements • Policy development/approvals: (i) Regulatory framework for licensing super-agents in Nigeria; (ii) Literacy framework; (iii) Cashless Nigeria Project (6 states); (iv) National Collateral Registry; (v) Consumer Protection framework; (vi) Non-interest banking; and (vii) tiered KYC requirements • Agriculture and SME finance schemes
	<ul style="list-style-type: none"> • Awareness/sensitization and literacy programs • Creation of guidelines for inclusive financial products – takaful (Halal insurance) and microinsurance • Liberalization of product delivery – permitting alternate channels • Customer protection 	<ul style="list-style-type: none"> • Guidelines led to creation of 3 Takaful window operators and 2 standalone players • MFBs enabled to act as insurance agents – providing bundled products • Bancassurance makes insurance available at bank branches • Complaints bureau resolved 260 complaints amounting to NGN5.5b
	<ul style="list-style-type: none"> • Utilization of mobile network to drive financial inclusion - through approval of telcos to operate Special Purpose Vehicles (SPVs) as super agents and release of exposure draft on utilization of USSD for banking 	<ul style="list-style-type: none"> • One mobile network operator seeking super agent license
	<ul style="list-style-type: none"> • Customer protection through insurance cover for deposits • Awareness/sensitization and financial literacy programs 	<ul style="list-style-type: none"> • Extension of deposit insurance to include MFBs and NBFIs, and introducing pass-through insurance for MMOs • Facilitating recovery of lost deposits, thereby creating ambassadors of beneficiaries • Grass root media awareness campaign through radio and TV programs on local stations in local dialect
 <p>National Pension Commission</p>	<ul style="list-style-type: none"> • Awareness/literacy programs • Introduction and revision of regulation to drive adoption of pension schemes 	<ul style="list-style-type: none"> • 11% of the working population is included • Micro pension scheme introduced to cater to informal workers – i.e. 70% of the population • Pension regulation revised to accommodate small business with fewer than 5 staff
	<ul style="list-style-type: none"> • Awareness/literacy programs – capital market journal, school curriculum • Non-interest instruments issuance • Formalization of informal community based cooperatives/savings programs • E-dividend introduction to reduce unclaimed dividend and increase investor confidence • Creation of own financial inclusion strategy 	<ul style="list-style-type: none"> • Reached over 100 artisans with awareness program in NC; plans to expand to NW and NE • First sovereign sukuk (Sharia-compliant bond) was oversubscribed by 6%

Government Agencies & Ministries financial inclusion related activities

Government Agencies	Key FI related activities	Key wins
 <p>National Bureau of Statistics</p>	<ul style="list-style-type: none"> Data collection and research support for determining financial inclusion state of play 	<ul style="list-style-type: none"> Provided support to EFinA on HH/respondent selection for EFinA A2F 2016 survey One-off Financial Literacy Survey, in collaboration with CBN Survey on PoS usage for NIBSS (can request results from NIBSS)
 <p>Nimc National Identity Management Commission</p>	<ul style="list-style-type: none"> Creation of national identity database and unique identifier for all Provision of pay enabled cards to all, including the financially excluded Provision of verifiable ID, enabling access to financial services 	<ul style="list-style-type: none"> Harmonization of existing database – data exchange with BVN database completed and exchange with NCC in discussion NIMC card payment feature has been enabled by Access bank and Mastercard National identity number is sufficient documentation for tier 1 account KYC
 <p>NIPOST</p>	<ul style="list-style-type: none"> Utilization of post office and postal outlets as agents for financial services provider, given wide branch network – all 774 LGAs have a post office 	<ul style="list-style-type: none"> Partnership with One Network (super agent), to use post offices as agents MFB agent arrangement in Osun, with 20 post offices purportedly facilitating inclusion of 500,000 previously unbanked residents, with over 50,000 users accessing loans of NGN5m daily
 <p>Small & Medium Enterprises Development Agency of Nigeria</p>	<ul style="list-style-type: none"> Data collection to determine SME ease of access to financial services SME access to finance facilitation 	<ul style="list-style-type: none"> MSME surveys Revising SMEDAN law to allow SMEDAN to become a financier Secured NGN2.5M conditional grant from federal government Planned development of farm business school and provision of farming machinery through MFBs at 1-3% interest
Government Ministries	Key FI related activities	Key wins
 <p>Federal Ministry of YOUTHS & SPORTS</p>	<ul style="list-style-type: none"> Awareness/sensitization program Business skills training Access to finance facilitation 	<ul style="list-style-type: none"> Trained NYSC (National Youth Service Corps) participants in 12 states across the 6 geopolitical zones to deliver financial literacy training in their communities Providing business and technical skills training to youths in Enterprise Development Programme and linking them to funding opportunities

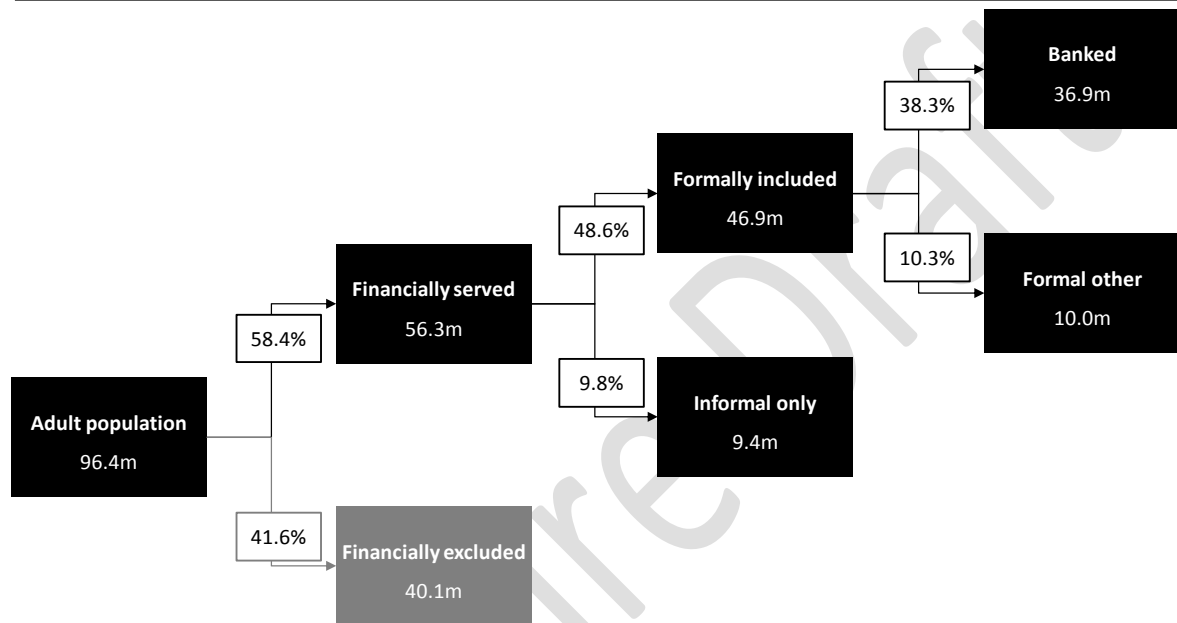
2.2 State of financial inclusion in Nigeria

2.2.1 Overall inclusion rates

In 2016, 58.4% of Nigeria's 96.4 million adults were financially served—compared to a target of 69.5%—leaving 41.6% (approximately 40.9 million adults) financially excluded. The proportion of financially served adults breaks down as follows: 9.8% of all adults used only informal services and 48.6% of all adults used formal financial services (see Figure 5), against a formal inclusion target of 56.5%.

Figure 5: Over 40% of Nigerians remain financially excluded and less than half have access to formal financial services

Overview of the Financial Inclusion situation in Nigeria, 2016

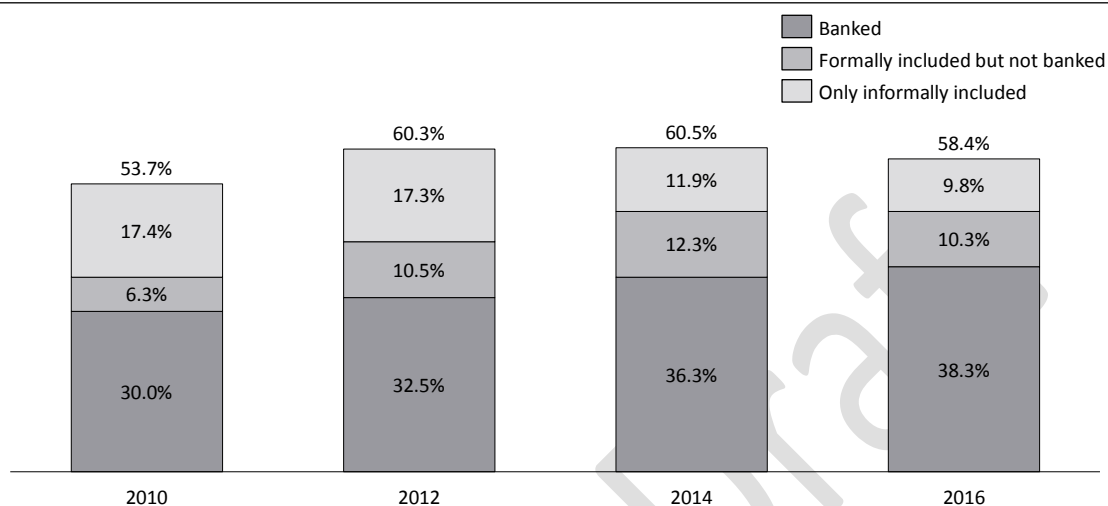


Source: EFinA Access to Financial Services in Nigeria Survey, 2016

Error! Not a valid bookmark self-reference. shows how the rates of formal and informal financial inclusion have changed since 2010: whilst the proportion of the population that is banked has grown consistently, other formal and informal inclusion has decreased.

Figure 6: Nigeria financial inclusion rate over time

Nigeria financial inclusion rates over time, share of adult population (18+)



Formal inclusion has increased from 36.3% in 2010 to 48.3% in 2016

Total inclusion rose from 53.7% in 2010 to 60.5% in 2014 but fell to 58.4% in 2016, and it is now below the 2012 level

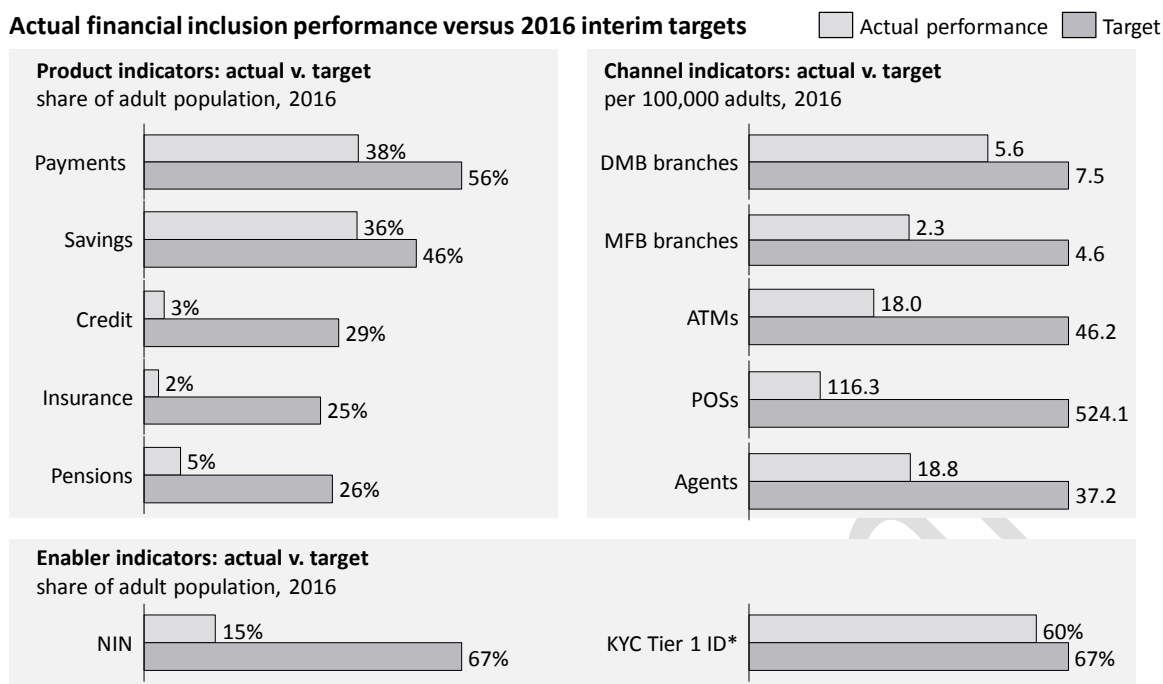
Notes: Precise definitions for each category are not available for all years. Differences in data definitions may partially explain these findings.

Source: EFINA Access to Financial Services in Nigeria Surveys: 2010, 2012, 2014, 2016

2.2.2 Products, channels and enabler targets

Performance did not meet expectations across all inclusion targets for products, channels and enablers (see Figure 7). Among product categories, credit, insurance and pension fell short of targets by the most significant margins. PoS terminals and ATMs showed the least progress among channels. More broadly, the review found that setting specific targets per channel may limit innovation, especially as technological advancements emerge. For example, with the spread of banking apps and mobile wallets and accounts, PoS terminals are no longer considered an essential channel for allowing underserved people to transact digitally. To expand channels that allow for cash transactions, the NFIS mandated that banks extend branch networks to reach underserved customers. However, this approach requires a heavy capital outlay and in some cases may not make business sense. As proven in other countries, the use of agent networks can offer the core services (with a focus on CICO) to allow underserved customers to transition between cash and digital money at a much lower cost to financial service providers. Finally, enrolment for the national identification number (NIN)—the primary enabler indicator—was markedly below expectations.

Figure 7: Progress on financial inclusion targets – no interim inclusion targets were achieved in 2016



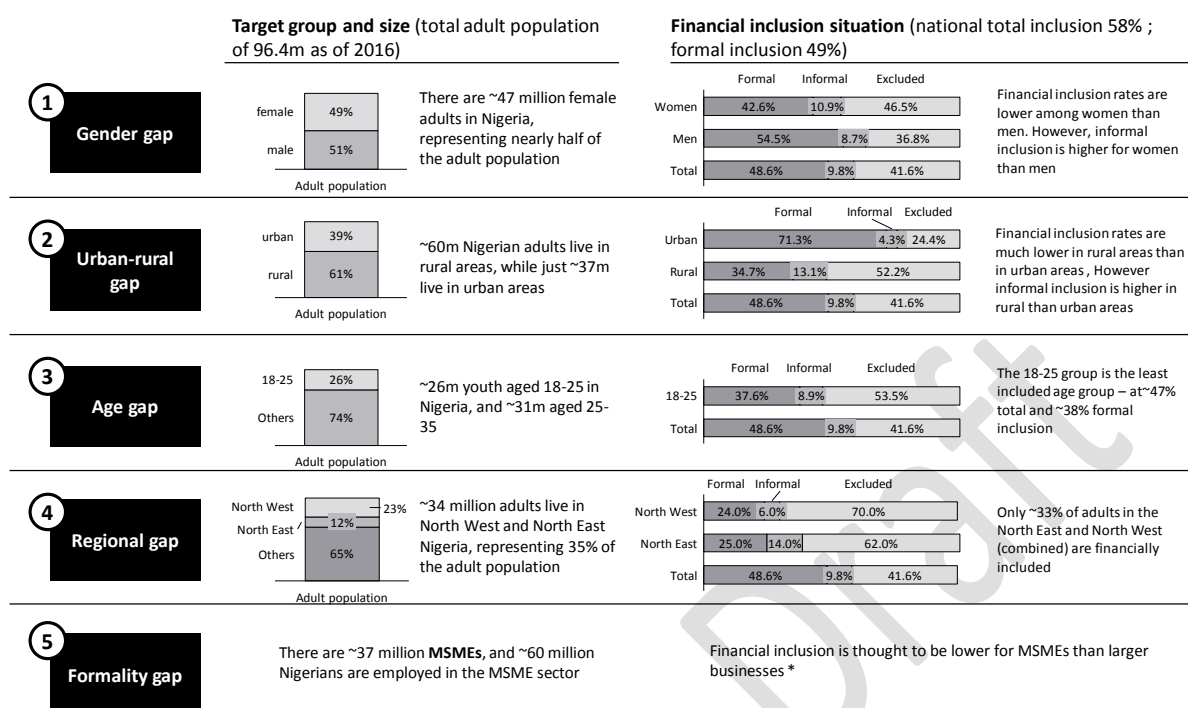
Though no targets were met, relative successes were recorded in savings, and the KYC Tier 1 ID

*Note: Percent of population having a mobile phone, the requirement for tier 1 KYC; data definitions for targets going forward will be clarified in refresh
 Source: NFIS FITC "Presentation of the 2016 Annual Report on the NFIS Implementation", 22 June 2017, slides 26-49

2.2.3 Excluded groups

Further analysis of financially excluded Nigerians reveals five groups that are disproportionately excluded: women, rural dwellers, youth, people living in North East and North-West Nigeria and MSMEs (see Figure 8). While data is not readily available on access to financial services for disabled people, qualitative information suggests that they are also disproportionately excluded. Reasons behind the unusually high exclusion rates for these groups include cultural barriers to uptake of financial products, difficulties in profitably serving excluded groups with financial services, high (and worsening) levels of unemployment, security challenges in specific regions of the country and continuing high levels of informality in the economy.

Figure 8: Five target demographic groups are excluded at especially high rates



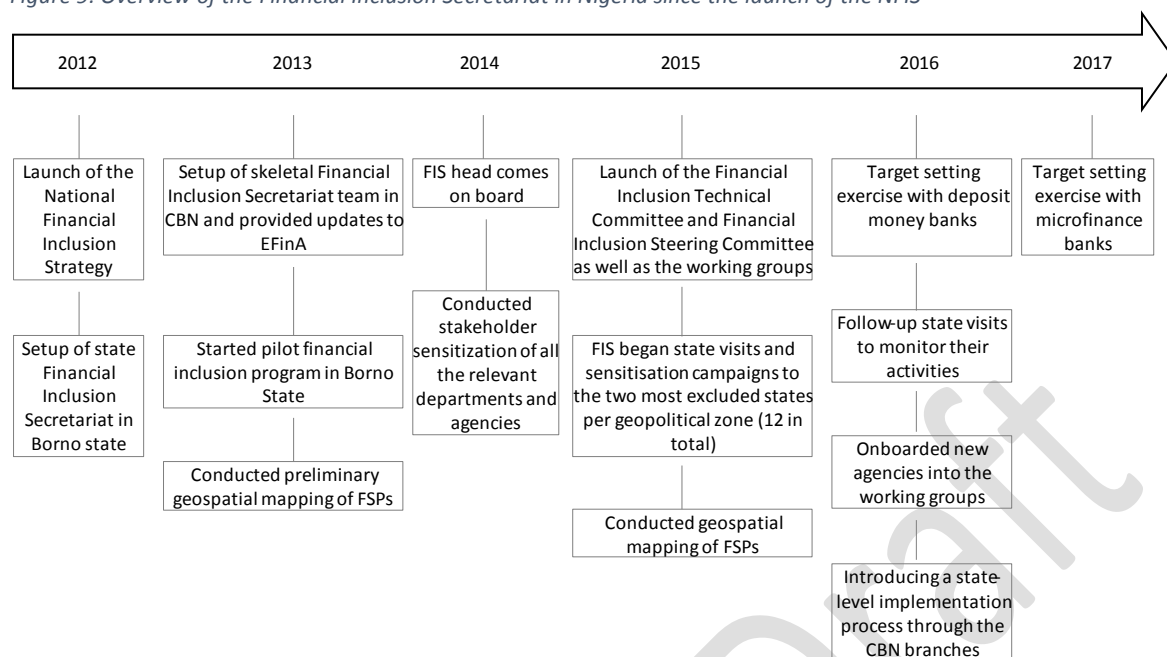
Note: *Quantitative data about SME inclusion is not readily available
Source: EFinA Access to Financial Services in Nigeria 2016 Survey.

2.2.4 Coordination

Given the large number of actors responsible for driving financial inclusion in Nigeria, the 2012 strategy established a mechanism to support both internal coordination (at the CBN) and external coordination (with partner regulators, government, private sector actors, donors and others). The creation of the FIS is a core success of the 2012 strategy, and the FIS is consistently praised for leading a highly inclusive coordination process. However, the stakeholder coordination process needs to be strengthened, with key issues prioritised and elevated across government.

The FIS was created according to the plan laid out in the 2012 NFIS. As a dedicated body focusing on and driving financial inclusion, the FIS is in line with international best practices for financial inclusion. However, the FIS was not fully established until 2014, which slowed momentum in the execution of the strategy (see Figure 9 for a timeline of FIS activities). By the time the FIS became fully operational, the organisational and political context had changed.

Figure 9: Overview of the Financial Inclusion Secretariat in Nigeria since the launch of the NFIS



Three challenges were identified in the review process with the current coordination structure:

- Various stakeholders observed that the internal conversation within the CBN on financial inclusion, can be driven more strongly, particularly when it comes to potential tensions between the mandates of financial inclusion and other CBN mandates. The governance structure into which the FIS provides updates, ends with the Governor of the CBN. However, the CBN cannot force either its peer agencies or organisations it does not regulate to attend meetings or contribute to financial inclusion. Where there are conflicts or perceived lack of interest or action, there is presently no formalised body to resolve conflicts or re-prioritise the financial inclusion agenda through compromise. Financial inclusion has not been a regular topic on the highest political agenda in Nigeria. Various regulatory and policy mandates (e.g., financial system stability and financial inclusion) pull in different directions; in order to serve these mandates in parallel, trade-offs are needed that carefully balance interests and take into account implications across all mandates. Most officials engaged in solution development on these trade-offs have a primary responsibility linked to a mandate that is not financial inclusion and typically contribute to financial inclusion efforts without making too many trade-offs, leading to outcomes that are not optimal for financial inclusion. In particular, actions taken to secure financial system stability often appear to be at cross-purposes to the interests of financial inclusion. Financial system stability is driven by regulatory and supervisory departments, and tends to push for tight regulations. For example, high requirements branch operations (such as constant physical presence of staff) as articulated by supervisory departments, limits innovation in flexible, low-cost, no-frills branch operations that may be more viable to deploy in highly underserved areas and thus drive financial inclusion.

2.3 Critical barriers

During the 2016 review of the NFIS, key stakeholders across the private and public sectors consistently identified a range of challenges that pose major impediments to increased financial inclusion. Resolving these challenges will be critical if Nigeria is to accelerate its pace of financial inclusion. Table 3 lays out this long list of barriers by topic and by stakeholder best suited to address the barrier. In keeping with the findings of a number of recent studies⁷, the barriers are not listed by product. As countries' financial systems evolve towards full inclusion, these studies suggest, digital payments are the most common entry point for both individuals as well as overall systems—with tipping points typically occurring once payments reach a certain penetration and usage. At these tipping points, new products and offerings are introduced and grow. In other words, product-specific barriers become a higher priority at a later stage in the financial inclusion journey.

⁷ Amongst others, Jain, Amit; Zubenko, Olga; Carotenuto, George, *A progressive approach to financial inclusion*, MasterCard Advisors, October 2014.

Table 3: Barriers as identified in the review phase

	Barriers that only government can address		Barriers that others can address
Theme areas:	Regulatory barriers	Other barriers that only GoN can address	Barriers that private and civil society players can address
Agent networks <i>Agent networks are insufficient to allow for expansion of financial services, especially in rural areas</i>	<ul style="list-style-type: none"> Low cash in / cash out commission schedule weakens agent incentives Rules against exclusivity discourage MMO / bank investment in agents MNOs cannot use agent networks for DFS (except via the superagent license) New superagent framework is not yet trusted or fully understood, causing key players to hesitate 	<ul style="list-style-type: none"> NIPOST plans to build a superagent framework which could drive rural access, but progress has been slow 	<ul style="list-style-type: none"> Banks lack capital and incentives to invest in recruiting, training and retention for potential direct and third party networks People in rural areas may lack trust in agents, in particular when they are recruited from outside of the community or do not share the community's language and culture
National identity <i>Many Nigerians lack national identity cards – limiting them to Tier 1 accounts</i>	<ul style="list-style-type: none"> NIMC is not yet allowed to use 3rd party licensing to drive NIN registration Restrictive tier 1 requirements limit the number of individuals that can access a full range of financial services 	<ul style="list-style-type: none"> NIMC is not able to roll out the NIN at the desired pace and is still in the process of harmonizing IDs to create a consolidated national database 	<ul style="list-style-type: none"> FSPs see a case to drive identity registration, but need capital for equipment
Digital financial services <i>Digital financial services has not realized its full potential in Nigeria</i>	<ul style="list-style-type: none"> MNOs are not allowed to offer digital financial services High capital requirements limit the ability of MMOs to invest MMOs cannot offer microsavings (being addressed) or microcredit There is an opportunity for a regulatory sandbox or other way to test innovative solutions 	<ul style="list-style-type: none"> There is an opportunity for greater coordination across the value chain and among regulators, especially in light of new super-agent guidelines 	<ul style="list-style-type: none"> MFBs lack the funds and know-how to build DFS infrastructure Banks see a very limited business case for investment in DFS at the base of the pyramid, even where other players are interested in engaging MMO restrictions and uncertainty impact investor interest in fintech
Community lending (MFI / MFB) <i>There is opportunity to capitalize on the potential of microfinance especially to serve women, rural people and youth</i>	<ul style="list-style-type: none"> Lack of MFI regulation results in occasional bad customer experiences and lack of trust While basic entry requirements are low, MFBs are constrained by stringent requirements, e.g., for staff qualifications Requirements limit MFB's ability to expand their footprints – and therefore to make a broader national impact 	<ul style="list-style-type: none"> MFBs are not connected to the national switch 	<ul style="list-style-type: none"> Most MFBs are not connected to a switch, raising processing time & costs Operations are expensive – high cost of customer acquisition Systems such as data management are poor and inefficient MFBs struggle to manage liquidity as loans exceed deposits
Tailored product design <i>Few products are tailored to key excluded groups: women, youth, people in the North, rural people, and SMEs</i>		<ul style="list-style-type: none"> Access to CBN intervention funds is limited due to restrictions and complexities CBN intervention funds do not have (sufficient) non-interest windows 	<ul style="list-style-type: none"> FSP lack understanding of needs for target group segments: women, youth, farmers, SMEs, the North FSPs, especially banks, do not see a business case for investment in these areas, especially in light of short term pressure for returns
G2P, P2G and digital payment ecosystems <i>Many G2P and P2G payments are not yet digitized</i>		<ul style="list-style-type: none"> Approval timelines are delayed Interest and willingness to support digital payments is limited by some officials' vested interests in some settings FSPs see digital payments as a low priority because of the delays and complexity of the process Roll-out varies by state 	<ul style="list-style-type: none"> Customers prefer to immediately withdraw funds, limiting FSP incentives to invest DFS is perceived to be costly Limited branch footprints and agent networks mean fewer customers can access digital payments
Financial and digital literacy <i>Literacy is low and limits adoption of financial services</i>		<ul style="list-style-type: none"> Education programmes are being put in place, but they are not yet at scale and may require additional tailoring and targeting 	<ul style="list-style-type: none"> Awareness of existing products is low Understanding of the product value proposition is limited Customer education is limited There is a potential for expanded community and awareness efforts
Regulatory environment <i>Regulatory barriers limit improvement in financial inclusion</i>	<ul style="list-style-type: none"> Across topical areas, critical path regulatory barriers are constraining progress in financial inclusion (see regulatory barriers listed on preceding slides) 	<ul style="list-style-type: none"> Sustainable funding is often a challenge Roles and responsibilities may not be clear 	
Private sector engagement <i>FSPs see little incentive to invest at the BoP</i>	<ul style="list-style-type: none"> A variety of regulatory barriers limit the business case for FSPs 	<ul style="list-style-type: none"> Currently there is no "regulatory sandbox" to allow for financial services innovation 	<ul style="list-style-type: none"> Private players often see little business case for BoP investment, especially in light of short term return expectations

Challenges were prioritised based on desk research, various stakeholder discussions and workshops⁸. Five priority actions emerged as most crucial to increasing financial inclusion in Nigeria, in terms of their potential to address the most significant barriers:

1. **Create a conducive environment for the expansion of DFS.** DFS has proven to be a low-cost approach to reaching unserved and underserved customers; across the world, advancement of DFS goes hand in hand with financial inclusion improvements.
2. **Enable the rapid growth of agent networks with nationwide reach.** Agents—particularly CICO agents—act as the entry point for financial inclusion and facilitate the crucial conversion between cash and digital money.
3. **Reduce KYC hurdles to opening and operating a bank account.**
4. **Create an environment conducive to serving the most excluded,** so that inclusion efforts do not focus solely on the ‘lowest hanging fruit’ (and thereby increase inequality).
5. **Drive adoption of cashless payment channels, particularly in G2P and P2G⁹ payments,** in order to (a) establish trust by leading by example, (b) provide a sufficient load volume to drive the business case for building and growing distribution networks (particularly agent networks) and (c) have in place a forcing mechanism to include large numbers of unserved and underserved people.

Topics from Table 3 above are clustered in the strategic priorities as follows:

- Community lending, tailored product design and financial and digital literacy are all integrated into priority number 4, “Create an environment conducive to serving the most excluded”
- Regulatory environment and private sector engagement are cross-cutting themes which are elevated to design principles and are addressed in each of the priority areas as appropriate
- National identity is broadened to reflect contribution to appropriate KYC

⁸ See Annex for the prioritisation exercise conducted to identify the priority clusters of barriers.

⁹ Person to government (P2G) and government to person (G2P) payments.

3 Accelerating progress towards greater inclusion by 2020 – strategic principles

The refreshed NFIS is anchored in the definition and adoption of a set of strategic principles that should govern public policy on financial inclusion in the long term, but also provide the impetus for specific actions to be taken from mid / late 2018 that can drive exponential progress towards inclusion in the 2019-2020 period. Two sets of overarching principles govern the strategic principles to be adopted as the core of the refreshed strategy:

First, an appropriately regulated level playing field supports the building and growth of a services market. For regulation to support inclusion, it should focus on the activity, not the actor. The object of regulation must be to prescribe what eligibility conditions a party needs to meet to provide a particular service, without closing off the sector from future innovation. Specifically, this entails:

- Ensuring that the same set of regulatory requirements and conditions apply to all potential providers of a given service, regardless of their background or type of operation. Creating different requirements for different actors for a given activity creates an uneven playing field, which can form a competition-distorting monopoly and/or oligopoly that leaves some players reluctant to even enter the market.
- Taking into account that the playing field, in some cases, is currently uneven and reflecting this in targeted, activity-focused requirements. For instance, if fintechs were to have the same capitalisation requirements as banks, this might be prohibitive. Therefore, these requirements need to be established for the activity that fintechs and banks are both aiming conduct—and licensing requirements for that activity should be adjusted accordingly. For example, the introduction of the payment bank license in India defines a new class of FSPs which can execute on a restricted set of activities, with commensurately lighter requirements than those that are in place for universal banks.
- Ensuring that regulations are balanced across various objectives—for example, the set of licensing requirements should both sustain financial system sustainability and create incentives to drive towards financial inclusion. The importance of creating and maintaining financial system stability may drive very detailed requirements which may either limit innovation or increase the costs for FSPs to the point of reducing or erasing the business case for serving the unserved and underserved (the focus of financial inclusion). In those cases, care should be taken to explore alternatives and/or to limit the risk to the system by putting different requirements forth for different categories of activities or transactions. Nigeria’s tiered KYC system is an excellent example of a sufficiently granular set of requirements, protecting stability with appropriate anti-money laundering protections and combating the financing of terrorism (AML / CFT) whilst enabling inclusion.

Second, impact is likely to be greatest when each actor focuses on activities that best suit its capacity whilst all maintain an inclusive lens as much as possible. Given the complexity and volume of changes that need to happen to achieve financial inclusion, focus on “comparative advantage” is important. This has three specific implications:

- All actors should continuously apply a lens of inclusivity to their activities in order to ensure that they are focusing on impact for particularly excluded groups such as women, MSMEs and people living in the north. Often, solutions can be designed specifically to include typically excluded groups—for example, a solution that promotes the inclusion of women—without additional costs if the design is deliberate and the relevant incoming information is available.
- The government should create an appropriate regulatory context in which innovation can take place. This may involve a mix of specific regulation (as highlighted below) and the creation of a “regulatory sandbox”. It may also include efforts to ensure that policy is stable or predictable from the perspective of the private sector—in a complex and highly interdependent environment, regulatory changes may have damaging unintended consequences. Creating a

sandbox can help enable innovation by allowing for experimentation and rapid cycles of adjustment whilst avoiding unintended consequences. Regulators have the discretion to create such contained environments, which can be supported by philanthropic resources and designed based on global best practices

- In execution, public and philanthropic resources (funding and non-financial resources) should focus on two things:
 - *Creating public goods (in a pre-competitive setting) which may not be viable to invest in for any one private sector actor but which strengthen the business case for subsequent investment by the private sector.* This could include conducting and disseminating essential research (e.g., detailed knowledge on excluded groups, new business cases for inclusion), establishing a national ID or creating shared assets (such as telecommunications coverage or a white-label agent network);
 - *Overcoming obstacles that hinder the business case for private sector actors, e.g., by providing specific incentives if these are needed.*

EXPOSURE DRAFT

4 Design principles per priority barrier / topic

The above overarching principles set the defining context for the core strategic principles of the refreshed NFIS. Applied to the existing barriers to financial inclusion in Nigeria, the overarching principles—fostering a level playing field and playing to core strengths whilst focusing on inclusivity—yield a number of specific design principles that should inform the design of technical solutions. These are outlined below, organised by priority barrier / topic.

It is critical to note these principles are to be adopted as **an inseparable set, collectively important to driving financial inclusion in the Nigerian context**. Strategy implementation must take **all** the principles into consideration, and not a just selection. Considering the many objectives to be achieved and challenges to be solved for, the set of principles is designed to mutually reinforce in some places and to balance in others—for example, a true level playing field requires rules to prevent and sanction anti-competitive behaviour. Picking and choosing from the principles as if from a menu of options would undo this cohesion and could lead to lopsided results.

EXPOSURE DRAFT

Table 4 shows both how the overarching principles apply to each of the priority topics and what additional design principles have been defined as topic-specific. The remainder of this chapter will discuss these on a topic-by-topic basis.

Table 4: Mapping of design principles by priority topic

Priority topic	Application of first overarching principle - an appropriately regulated level playing field supports the building and growth of a services market	Application of second overarching principle - impact is likely to be greatest when each actor focuses on activities that best suit its capacity whilst all maintain an inclusive lens as much as possible	Topic-specific design principle
1. Create a conducive environment for the expansion of DFS	<ul style="list-style-type: none"> • Create a level playing field in which the activity is regulated rather than the actor, appropriately balancing different interests • Ensure that regulation secures healthy competition, allowing each actor to deploy its competitive strength whilst avoiding overly strong concentration of supply: <ul style="list-style-type: none"> ○ Anti-trust rules ○ Compliance enforcement 	<ul style="list-style-type: none"> • Achieve universal telecommunications access: <ul style="list-style-type: none"> ○ Targeted investment to fund installation of connectivity infrastructure ○ Exploration of special licensing regime 	Achieve zero error tolerance and prompt resolution
2. Enable the rapid growth of agent networks with nationwide reach	<ul style="list-style-type: none"> • Lower barriers to entry • Enable market forces 	<ul style="list-style-type: none"> • Limit the degree to which government requirements increase costs 	
3. Reduce KYC hurdles to opening and operating a bank account	<ul style="list-style-type: none"> • Harmonise KYC requirements per activity regardless of provider • Ensure that KYC requirements are appropriate to the risk that is being managed without requiring more than is necessary 	<ul style="list-style-type: none"> • Achieve universal coverage and accessibility of national ID system 	
4. Create an environment conducive to serving the most excluded	<ul style="list-style-type: none"> • Ensure a level playing field for non-interest products 	<ul style="list-style-type: none"> • Direct public and donor resources towards creating pre-competitive public goods and insights that build the market for the underserved • Use public and donor resources to strengthen the business case where it is insufficient for private actors to enter the space 	Adjust regulation and licensing requirements to better enable community-based financial institutions to play their role in serving the most underserved
5. Drive adoption of cashless payment channels, particularly in G2P and P2G payments		<ul style="list-style-type: none"> • Obtain 100% digitisation of G2P/P2G payments, ensuring that the government leads by example and reaches large numbers of the un/underserved • Optimise access to minimise transaction costs for users 	

4.1 Create a conducive environment for the expansion of DFS

4.1.1 Statement of the problem and policy choice

Due to its capability to transcend physical barriers by leveraging on pervasive end-user technology like the Mobile phone, DFS can facilitate the attainment of financial inclusion objectives. In spite of its inherent benefit, uptake of DFS in Nigeria is low. The recent Memorandum of Understanding (MOU) signed between the Central Bank of Nigeria and the National Communications Commission (NCC) should be leveraged to ensure banking and telecommunication stakeholders work together to improve the penetration of DFS and its adoption amongst the underserved population.

4.1.2 Strategic design principles

- **Create a level playing field in which the activity is regulated rather than the actor, appropriately balancing different interests.** Conditions for actors to engage in DFS should both be clearly articulated and logically linked to the aspects that need to be regulated (such as optimising financial inclusion whilst maintaining financial sector stability and protecting consumer interests). Following that articulation of conditions, allowing all actors who meet these conditions to engage in DFS will lead to a broader and deeper product and service offering. For instance, regulation should allow all those who meet licensing requirements to offer DFS (regardless of type of player).
- **Ensure that regulation secures healthy competition, allowing each actor to deploy its competitive strength whilst avoiding overly strong concentration of supply.** Aspects to be taken into account include:
 - **Anti-trust rules:** Regulation should prevent anti-competitive activities, such as deliberate delivery of poor connectivity services (e.g., by providers of connectivity infrastructure) to third parties (e.g., banks deploying mobile money solutions) whilst maintaining good connectivity on a provider's own platforms.
 - **Compliance enforcement:** Compliance should be enforced and penalties of material consequence should be levied on all violators.
- **Achieve universal telecommunications access.** The reach of telecommunications network coverage is a key determinant of the feasibility of DFS rollout. Universal coverage provides the necessary infrastructure for DFS players to deploy their services. To achieve universal access in Nigeria, the following are likely to be needed:
 - **Targeted investment to fund installation of connectivity infrastructure (points of presence)** in areas with poor or no access. The Universal Services Provision Fund was set up to accelerate rollout of connectivity infrastructure and deployment should be encouraged for this purpose. Funding alone may not fully address the constraint, though it provides a catalyst for reducing the cost of service delivery in hard-to-reach areas.
 - **Exploration of a special licensing regime to support achievement of universal access.** This could be offered to connectivity infrastructure companies who would expand access to the un/underserved communities. These licences, perhaps with lower licence fees, could also offer tax holidays for the first few years of operation. This is an example of the principle that government can apply regulation to create incentives to make private sector business cases attractive. This should only be put in place if the current structure does not lead to a viable business case—and should be open to all actors meeting the requirements.

- **Collaboration of relevant government agencies to drive the resolution of other issues faced by telecommunication companies in searching to achieve universal access.**¹⁰
- **Achieve zero error tolerance and prompt resolution.** Errors in payment transactions are a huge deterrent to the un/underserved, especially those who have limited funds available and can scarcely afford to leave funds within a system while awaiting reversal or rectification. There is a need to build trust by ensuring that errors are kept at a minimum and receive prompt treatment. For instance, government could provide priority complaint treatment to those with money stuck in the system, and ensure that officers originating transactions are well trained. Resolutions including immediate repayment, followed by investigation and final resolution (akin to the practice of credit card companies globally) could be considered for transactions below a certain value with tier 1 KYC users¹¹.

4.1.3 Case study

DFS in India

Background: Since 2008 the Reserve Bank of India (RBI) has made significant advances in regulation and infrastructure, paving the way for increased provision of digital and nondigital financial services. With the introduction of mobile banking and e-money regulations in 2008, the DFS space was opened to MNOs and mobile payment providers, allowing them to offer banking services directly or indirectly.

Key drivers of inclusion-related progress

The DFS model in India has the following key features, which drove expansion of access to financial services:

- **DFS is provider neutral:** As in most other countries, deposit money banks offer DFS in India. In addition, the Reserve Bank introduced payment bank licences in 2015, which allow licence holders to provide restricted financial services—with a cap on the deposit volumes and no authorisation to offer credit or credit cards, but with the ability to offer debit cards, net-banking and mobile banking. Fintechs, MNOs, a pharmaceutical company and various business conglomerates applied and were granted payment bank licences. Airtel, a mobile network operator, launched the first payment bank in January 2017. Although payment banks have recorded only limited success, there are benefits of increased availability of access points as a result of the participation of non-bank players with expansive agent networks (MNOs, for instance can use their airtime vendor locations to provide financial services). In 2009, the Indian government launched the Prepaid Payment Instruments (PPIs), a payments system for the issuance and operations of prepaid instruments by licensed banks and non-banks. The PPI allows non-banks to offer prepaid or stored-wallet accounts but prohibits them from offering cash-out services, offering loans, earning loan interest and

¹⁰ Early stakeholder engagement has surfaced issues such as multiple taxation and regulations, unreliable power supply, poor road network and infrastructure, vandalization of infrastructure and difficulty in accessing foreign exchange. As the focus of the review and refresh of the NFIS was not to find all barriers to universal access of telecommunication services, it is recommended this is researched further and a strategy is developed to tackle this.

¹¹ This is an example of an intervention that would require a careful trade-off. “Resolve first and investigate later” can make a big difference, especially for lower-income, lower-wealth customers who cannot afford long waiting periods before retrieving their money. However, such a set-up can create an incentive for people to fraudulently report failed transactions. Therefore, restricting this resolution approach to certain value transactions from low-tier KYC users could effectively balance both concerns.

earning interest on floats (though they are required to invest 75% of deposits in government bonds with maturities of up to one year)¹².

- **Interoperability is enabled:** The introduction of Immediate Payments Service (IMPS) in 2010, which allows for interoperability between banks and MMOs, has been pivotal to the adoption of mobile wallets (such as PayTM) by customers in India. Mobile wallets became more functional and attractive with the facilitation of transactions across platforms—i.e., transfers being made from mobile wallets to bank accounts and vice versa.
- **Unique digital ID is widely issued:** The successful introduction in 2009 of Aadhaar, a unique 12-digit individual ID, facilitated the adoption of financial services, including DFS channels. The provision of a unique ID to 1.1 billion¹³ citizens (as of early 2018) has enabled more people to meet KYC requirements and access financial services.
- **DFS is being utilised for large-scale social payment disbursements:** The government has digitised payments for its large social benefit schemes, with over 100 million beneficiaries, thereby driving adoption by lower income classes.

Impact

- **Increased adoption of mobile money** In the five years following regulatory reforms that allowed for the entrance of new players and facilitated interoperability in the digital ecosystem, India experienced extraordinary growth in mobile money transaction volumes.. Following the introduction of the regulation that permitted MNOs and mobile payment operators to play in the DFS market, mobile wallet transactions grew by 4885% from 2013 to 2017. In the same period, mobile money transaction value grew from USD 181 million to USD 8.2 billion.¹⁴

Risks

Whilst financial inclusion has accelerated strongly in India on the back of regulatory reforms that enabled DFS expansion, there are associated risks which must be considered:

- **Gaps in consumer protection:** India's rapid progress on financial inclusion could be hindered by weak consumer protection guidelines, including lack of a proper framework for securing personal information and contractual arrangements to ensure that merchants have adequate security measures in place. To address these gaps, the Government of India is in the process of enacting a data protection framework that will ensure robust data protection.
- **Operational disparities creating an uneven playing field:** Interoperability exists for interbank channels but not for wallet-to-wallet transactions, which require a stringent pre-approval procedure on the part of non-bank providers. This hurdle to inter-wallet transactions favours the bank channels.

4.1.4 Implication for Nigeria

The example from India, mentioned above, showcases steep growth in both the proportion of the population using mobile money and the number and value of mobile money transactions, directly after changing regulations to a provider-neutral framework. The same has happened in Ghana: the mobile money user population increased by 72% within the first year of the provider-neutral regulation's release. Drawing from these cases, Nigeria likely can also attain a significant increase in

¹² Note that stakeholders in the Indian payment space have noted that these restrictions limit the viability of the PPI business model.

¹³ Goek Vindu "Big Brother' in India Requires Fingerprint Scans for Food, Phones and Finances" 2018 – as published by CGAP

¹⁴ Reserve Bank of India, Payment System Indicators 2016

penetration if it opens the field to more players—particularly non-banks that can offer payment and other financial services—while at the same time regulating healthy competition taking into account the Nigerian context and past performance.

EXPOSURE DRAFT

4.2 Enable the rapid growth of agent networks with nationwide reach

4.2.1 Statement of problem

Across the world, agents have played a vital role in offering many low-income people their first-time access to financial services. Furthermore, agent networks present an opportunity to service people in areas that lack bank branches or other physical financial access points like ATMs. Consequently, a functional agent network is imperative for extending financial services to the unbanked. However, deficit of fixed location agents has been a challenge.

For instance, to attain the financial inclusion target by 2020, there must be 62 agents for every 100,000 Nigerian adults. Currently, there are only 28.2 agents per 100,000 Nigerian adults. Issues around profitability of agent networks, agent fee structure and other environmental issues have contributed to this gap. A deliberate effort needs to be undertaken by stakeholders to address policy related bottlenecks and rapidly deploy agents. The current Shared Agent Network Expansion Facility (SANEF) plan between the Committee of Bank CEOs, Mobile Money Operators, Super Agents and the CBN can be leveraged on to enable the rapid growth nationwide.

4.2.2 Strategic design principles

To drive expansion of the agent network across the country, these following principles are key:

- **Limit the degree to which government requirements increase costs:** Eliminating non-operational costs that inadvertently increase the cost of doing business is essential to facilitating expansion of agent networks. By eliminating these costs, the cost of doing business will go down and expansion will become more financially viable. Such costs include outdoor advertisement costs (constituting up to 30% of agents' annual operating costs), which can either be eliminated by promoting the use of common branding across the board, with no cost attached to the usage of unique signage, or reduced across states (especially in those with low revenue potential).
- **Lower barriers to entry:** Allow more players into the pool to facilitate the wider reach of agents. Licensing requirements would need to be reviewed to maximise the number of actors for whom building and operating agent networks is a viable activity, while ensuring appropriate consumer protection and financial system stability. The licensing requirements should be appropriate for the intended objective.
- **Enable market forces:** Eliminating restrictive regulations will allow market forces to determine the best pricing models. For instance, lifting fixed pricing would allow agent networks to determine cost-reflective pricing, which makes for more viable business models and an expansion of capacity / interest.

4.2.3 Case study

Flexibility in agent exclusivity and pricing in Bangladesh

Background: Expanding financial inclusion has become a priority for the Government of Bangladesh, which has worked through its Central Bank (Bangladesh Bank) to implement extensive measures to promote a more inclusive financial system. An agent banking distribution model was introduced in Bangladesh in late 2011. The extensive reach of the bank agent network grants underserved and remote communities access to DFS in areas where physical bank branches are largely unavailable.

Key drivers of inclusion related progress

The successful utilisation of agency banking to facilitate greater inclusion in Bangladesh can be attributed to the following factors:

- **Flexibility in agent network design and exclusivity:** Investors in agent banking networks are allowed to design their distribution networks to maximise their respective strengths. Consequently, investors are allowed to build exclusive networks or be part of shared (non-exclusive) network arrangements. Over 50% of the agents are non-exclusive¹⁵. This allows banks and mobile money operators to select an agent network design that best suits their business model.
- **Market-based determination of rates:** Transaction fees for agents are not fixed in Bangladesh. The prudential banking guideline for agent banking operation in Bangladesh allows banks to establish cost-reflective fees, charges and commission structures for their agent banking services¹⁶. Regulation does not limit the profit margin potential of agent banking in Bangladesh.
- **Leveraging the post office network:** Bangladesh has a large and far-reaching postal network of 2,000 post offices and 8,500 rural outlets. This network was leveraged for agent banking in Bangladesh, with the delivery of both digital and non-digital financial services through post offices and postal outlets. Following the launch of Mobile Money Order Service and Postal Cash Card in 2010, the Bangladesh post office recorded 11 million mobile money orders in the first three years¹⁷.
- **Foreign investment (including development finance) in agent banking activities:** bKash controls nearly 90% of the market. bKash started in 2011 and rapidly expanded its activities (gaining 11 million new users in 2.5 years)¹⁸ partly due to the availability of funding provided by Money in Motion LLC (a company with financial inclusion investment interests, holding 49% of bKash shares), the International Finance Corporation and Bill and Melinda Gates Foundation.

Impact

- **Agent network expanded by over 300%.** Within four years, the agent network more than tripled, enabled by a non-restrictive regulatory environment. The number of agents grew from 189,000 in 2013 to 787,000 in 2017¹⁹.
- The expansive agent network drove **wider uptake of mobile money wallets**, with penetration increasing more than fivefold from 5 million in 2013 to over 25 million in 2015²⁰.

Risks

Despite the widespread growth of agent networks in Bangladesh, potential bottlenecks to be considered in the ecosystem include:

- **Fraud and arbitrary charges:** The potential for risk of fraud relating to over-the-counter (OTC) transactions via agent networks presents significant risks for consumers, agent operators and the regulator alike. Prominent among the fraud incidents are mobile phone scams such as fake transaction alerts, counterfeit money and PIN/SIM hacking. In many cases, agents run the biggest risk as they may find themselves paying out cash against a fake transaction. Customers have also been charged unauthorised fees, levied arbitrarily by agents, which

¹⁵ Helix, Agent Network Accelerator Survey: Bangladesh Report 2016

¹⁶ Bangladesh Bank, *Prudential Guidelines for Agent Banking Operation in Bangladesh 2017*

¹⁷ Kachingwe, N. & Berthaud, A., *Bangladesh "An unexpected source of branchless banking innovation"?* 2013

¹⁸ Greg Chen, CGAP, "bKash Bangladesh: What explains its fast start?" 2014 – as published by Universal Post Union

¹⁹ Central Bank of Bangladesh, Mobile Financial Services (MFS) summary statement. This is not representative of actual active agents. Each agent has an average of 2/3 tills

²⁰ USAID, Mobile Financial Services in Bangladesh

poses the risk of discouraging usage of agent networks for financial services

- **Lack of clear definition:** The lack of a clear definition of "agent" translated to various entities, individuals and institutions, trying their hand at serving as banking agents, with patchy success. In early stages of a new channel, failures of providers can reduce trust
- **Disproportionate agent demography leading to exclusion of women customers:** As at 2017, 99% of Mobile Financial Services (MFS) agents in Bangladesh were male. Given cultural and religious sensitivities, women in Bangladesh are uncomfortable with sharing their personal details with male agents²¹. The low representation of female agents poses a significant roadblock to onboarding female customers, as well as the distribution of products that are tailored for the needs of women, as female customers are typically hesitant to interact with male agents due to religious or cultural reasons.

4.2.4 Implication for Nigeria

As seen in the case of Bangladesh, agent networks witnessed a marked increase, growing by over 300% in four years on the back of market changes that allowed flexible business models and pricing. Nigeria can also attain significant increase in penetration if it does the following:

- Permits flexible agent network models, allowing agent developers / aggregators to have exclusive or non-exclusive agents (as they deem suitable for their businesses);
- Allows cost-reflective pricing, thereby stimulating more investment in agent network expansion;
- Encourages and facilitates the growth of female agents to ensure greater participation of female customers, especially in Northern Nigeria;
- Develops mechanisms to assist agents in tackling fraud issues through specialised training on fraud typology, identification and mitigation.

²¹ World Bank, Lessons from the Field: Bangladesh, Mobile Money and Financial Literacy for Women 2017

4.3 Identity: Reduce KYC hurdles to opening and operating a bank account

4.3.1 Statement of problem

Verifiable ID is a prerequisite for accessing formal financial services, yet 60 million adults do not have a government issued ID in Nigeria. In 2013, the Three-tiered Know Your Customer (KYC) Regulation was introduced to improve financial inclusion in Nigeria. While the three-tiered KYC regulation has helped drive an uptick in the number of accounts, there have been some challenges with access. Tiered KYC was introduced to facilitate inclusion of ID-less citizens but the tiered KYC regime is not harmonised across providers and the appropriateness of some KYC requirements has remained a source of stakeholder concerns. Further, efforts to introduce government issued national ID have taken longer than originally planned, to reach the entire population.

4.3.2 Strategic design principles

To reduce the KYC hurdles to inclusion, the following design principles should be applied:

- **Harmonise KYC requirements per activity regardless of provider:** Currently, In daily reality, requirements to open tier 1 bank accounts have been stricter than for tier 1 mobile money accounts. Historically, tier 1 bank accounts required a verifiable ID whereas tier 1 mobile money accounts could be opened and operated with just a SIM card registration. Returning to a situation wherein the requirements are constant per tier and transaction and balance thresholds and volumes are constant per tier, regardless of whether it is a mobile money account or a bank account (as outlined by the Tiered KYC regulations), will reduce market confusion on tiers.
- **Ensure that KYC requirements are appropriate to the risk that is being managed without requiring more than is necessary:** KYC is essential for AML / CFT) yet the risk is lower for lower tiers, given the limitations on balance and transactions volumes and values. Optimal KYC requirements are those that are appropriate for AML / CFT and potential other risks to be managed without being overly restrictive (as every additional requirement increases barriers to entry). Returning to the requirements originally outlined by the Tiered KYC regulations (which had tier 1 requirements at the level of ID required for SIM card registration) will allow further growth. As such, it is preferable for BVN not to be necessary for opening and operating a tier 1 bank account²². Also, where address verification is currently mandatory and costly, a geolocation frequented by the user (as tracked by MNOs) can be used to confirm an “approximate” address, instead of verifying the exact address.
- **Achieve universal coverage and accessibility of national ID system:** National ID has, in other geographies and settings, proven to be an excellent basis for including the underserved in financial and other services. Internationally accepted principles for achieving national ID in a robust, future-proof and inclusive way include the following:
 - **Design ID requirements to optimise for universal access to ID.** ID should be affordable and accessible to all citizens regardless of location, age, gender, or income level. This may include different ‘tiers’ of national ID linked to different uses, allowing for an early and simple capturing of essential elements, to be built upon over the course of someone’s life—thus minimising the number of people who cannot access the national ID because they lack one of the key pieces of information or documentation required. For Nigeria specifically, means of information verification should include confirmation by community leader or head of household, so that demographics that are unable to

²² Currently, BVN is not legally required for tier 1 bank accounts. However, banks (and NIBBS) have moved towards requiring BVN for all accounts and this creates confusion in the market/ public perception

provide more sophisticated proof are not excluded. There is also a need for harmonisation and ultimately integration across Nigeria’s multiple existing databases.

- **Design enrolment for scalability and inclusivity.** The enrolment system must be sustainable financially (in terms of set up and enrolment costs) to ensure that universal coverage is attainable as soon as possible. This means the location/reach of enrolment centres, information required for enrolment and the enrolment procedure should not inherently exclude any demographics. As such, where government is unable to fund a nationwide network of enrolment centres, licences should be provided to third parties. Female (as well as male) enrollers should be hired to ensure that women from conservative communities are comfortable enrolling or can be encouraged / permitted by their communities to do so. Government or donor support may be needed if the private sector business case is too weak.
- **Ensure security / data privacy.** Information provided must be secure. Identity databases are a public asset that must be protected, in part due to national security concerns and also due to the foundational requirement that ID must be trusted and unique to an individual.

4.3.3 Case study

Nationwide simplified and inclusive ID enrolment in India (Aadhaar)

Background: The Government of India established the Unique Identification Authority of India (UIDAI) in 2008. UIDAI is the official issuer of the Aadhaar number—a 12-digit unique identity number. The first Aadhaar number was issued in 2010 to a woman in a remote village, as proof of its inclusiveness. The Aadhaar has been lauded as the world’s most ambitious identity scheme. This scheme was driven by the government’s recognition of the fact that proof of identity is a key driver of socioeconomic development. Today, the Aadhaar/unique ID number is widely distributed and used to verify the identity of beneficiaries of government social benefit programmes and pension schemes.

Key drivers of inclusion-related progress

The national identity scheme Aadhaar has the following key features, which have driven the large enrolment numbers and relatively low cost of enrolment:

- **Use of third-party enrollers to maximise reach and improve citizen access to enrolment points:** Third parties (referred to as “agencies”) are licensed to set up centres and enrol residents for their Aadhaar numbers. The agencies are enrolled and supervised by registrars, appointed by UIDAI. Over 400 SMEs serve as registrars, overseeing activities of over 376,000 certified enrollers/agencies.
- **Less-formal proof of identity / identity verification is allowed:** Aadhaar allows informal proof of identity and verification by head of household. The Aadhaar registrars have been instructed to devise methods to confirm identification of people with little or no means of official ID documents to enrol.
- **Data collection and ID issuance is simplified:** Only five data fields and biometrics are required. The data fields are name, date of birth / age, gender, address and mobile number / email address. After enrolment, a letter with the Aadhaar number is issued within 10-12 days (sometimes as fast as 2-3 days). There is no actual card (which helps to maintain the low cost of issuance).
- **Female enrollers are encouraged:** Female enrollers are also employed, which can make female residents more comfortable enrolling and is particularly welcome in conservative communities.

Impact

- **As of November 2017, over 90% of India's 1.3 billion residents had been registered.** Enrolment centres' have nationwide reach, achieving high levels of enrolment in most states. Enrolment capacity is up to 1 million enrolments per day, at an average cost of USD 1 per enrolment. The enrolment centres also double as remote centres for provision of digital financial services and other government services, producing several income streams for the third party-licensees and making running a centre an attractive business proposition.
- **Access to government issued identity had a positive impact on financial inclusion.** Before Aadhar was introduced, KYC requirements were a major hurdle to financial inclusion. Even when ID requirements were relaxed for low value accounts¹, up to 60% of the low-income population was unable to fulfil the requirements. Now, most of the population has an ID document to fulfil the KYC requirements¹.

Risks

Though the Aadhaar programme has successfully provided unique identity to over one billion Indians, some risks to be considered include:

- **Data privacy:** Identity fraud and security breaches of sensitive personal data pose the greatest risk for the largely successful Aadhaar programme. The dual use of Aadhaar as an identifier as well as an authenticator increases the probability of identity theft. Effectiveness of Aadhaar as means of identification depends on the system being openly available for verification, making the data vulnerable to exploitation and hacking. For instance, in April 2017, data of over a million pensioners were exposed due to a programming error.
- **Unhealthy business practices:** Incidents of unmonitored and unregulated use of customers' biometric data by private sector players have raised significant concerns among the Indian populace. In early 2017, the licence of a prominent digital payment bank was revoked and the CEO sacked for violating the Aadhaar Act by opening accounts without explicit consent while carrying out Aadhaar verification of customers' mobile numbers. Over 2.3 million customers reportedly received as much as USD 7.4 million in total in mobile money accounts, which they were unaware even existed²³.

4.3.4 Implication for Nigeria

India has enrolled over one billion people since inception, enrolling an average of 143 million people per annum with a total of 376,000 agents. In order to accelerate the rollout of the unified nationwide ID system, and thereby reduce barriers to adoption of financial services, Nigeria needs to:

- Create an expansive nationwide network of enrolment agents and enrolment centres by licensing third-party enrollers;
- Adopt inclusive enrolment methods such as the acceptance of less formal proof of identity and the use of both male and female enrollers to encourage marginalised populations to participate;
- Simplify the ID enrolment process by reducing data collection (field) requirements—lowering costs and achieving more with available funds.

²³ Quartz, India's biometric programme, is putting the identities of a billion people at risk.

4.4 Create an environment conducive to serving the most excluded

4.4.1 Statement of problem

Women, youth, MSMEs, people with disabilities and people living in Northern Nigeria have particularly high exclusion rates. The need often exists to tailor financial product characteristics and distribution methods to better meet needs and expectations for excluded groups—for example, non-interest products for people in Northern Nigeria and micro savings, lending, pensions and insurance products for excluded groups.

In addition, there are issues that are specific to each of the excluded groups that may need to be addressed in order to create an environment conducive to the inclusion of the group. For example:

- People in Northern Nigeria face a particularly difficult safety and security situation that has displaced many people and makes operating financial services substantially more expensive, harming the business case for offering financial services in these regions. The security issues have also adversely affected livelihoods in the region, the majority of which are smallholder agriculture.
- Women are often excluded from formal financial inclusion services because they are unable to meet the requirements for opening a bank account or accessing a loan. They may have no means of identification and are often required to be accompanied by—or receive approval (which might be withheld) from—a male member of the household. Also, land ownership is predominantly patriarchal, and women are disadvantaged in accessing loans because they cannot present collateral.
- MSMEs often face a mix of constraints, including (1) lack of access to markets / corporate supply chains to sell into, (2) lack of core business skills on the part of business owners, which impacts the viability of their businesses and of their application for financing and (3) lack of access to finance on palatable terms (e.g., appropriate tenure, grace period and interest rate / fees).
- Youth face a high unemployment rate in Nigeria, limiting their (discretionary) income and access to long-term savings through pensions. For a number of youth, an absolute lack of monetary means may be a driver for financial exclusion.

4.4.2 Strategic design principles

To create an environment conducive to serving the most excluded, a number of design principles are recommended:

- **Direct public and donor resources towards creating pre-competitive public goods and insights that build the market for the underserved:**
 - **A strong understanding of the target market is necessary to develop products well suited to the needs and preferences of the demographic.** One way to enhance this understanding is to gather data and intelligence on the target user population. Developing reliable data on the preferences of unserved and underserved groups would promote a better understanding of the addressable market and could encourage FSPs to target these groups.
 - **Similarly, limited financial literacy has been cited as barrier to financial inclusion.** Whilst research on this is mixed and some FSPs have found it beneficial to their business to provide financial literacy support, lack of sufficient public awareness of the benefits of (formal) financial inclusion remains a hindrance to private sector activity. Donor and public resources could focus on closing these gaps, specifically for the most excluded

groups. For instance, the Securities and Exchange Commission can drive increased awareness of the Federal Government of Nigeria Savings Bond (FGNSB) to groups that are unaware of, and typically do not subscribe to, such savings instruments.

- **Adjust regulation and licensing requirements to better enable community-based financial institutions to play their role in serving the most underserved.** Community-based financial institutions (whether savings and credit cooperative organisations (SACCOs), farmer societies or microfinance institutions) can play an outsized role in reaching the most underserved, both by geography and demographic characteristics. In Nigeria, however, these institutions are not as effective in reaching these populations as they could be. Context-specific regulation—aimed at tailoring licensing, market entry and business operating requirements to match specific financial inclusion goals set for these institutions—could help ensure that licensed players are sufficiently robust and capable to avoid the kinds of failures that damage industry reputation and customer trust. Granting community-based financial institutions greater access to capital is another essential strategy for enabling these institutions meet underserved customers’ credit needs.
- **Ensure a level playing field for non-interest products,** particularly for (interbank) capitalisation windows at CBN. For instance, CBN special intervention funds such as MSMEDF or Anchor Borrower Scheme should have non-interest windows so that the FSPs serving communities with a preference for non-interest products can also be beneficiaries of such interventions, achieve lower costs of funds and strengthen their business case.
- **Use public and donor resources to strengthen the business case where it is insufficient for private actors to enter the space.** For some groups, such as people with disabilities and MSMEs, the relatively high cost to serve means that the business case will remain weak for the foreseeable future. Where the business case is insufficient to attract private sector activity, additional incentives can be put in place—as noted earlier, in order to maintain a level playing field, this should be done in such a way that every actor meeting the eligibility requirements can benefit from these incentives. For instance:
 - There might be a need to support the development and delivery of (i) micro savings, lending, pensions and insurance products for lower income classes; (ii) agricultural insurance products for smallholder farmers in Northern Nigeria who are at risk of losing their livelihoods due to the precarious security situation; or (iii) tailored agricultural credit to women, who are typically excluded from financial services.
 - For MSMEs, integrated interventions tend to be the most effective—for example, providing business development support, linking MSMEs to supply chains and markets and improving access to finance.
 - Deployment of additional (public and donor) resources may be needed to improve the security situation in Northern Nigeria, in addition to targeted support and incentives to increase the provision of financial services and / or reduce costs to serve.

4.4.3 Case study

Donor-supported on-lending programs by microfinance institutions (MFIs) in Bangladesh

Background: Non-governmental organisation (NGO) supported MFIs are the largest providers of microfinance services in Bangladesh, serving 61% of all borrowers. Most MFIs in Bangladesh are unlicensed, are not allowed to mobilise deposits and have limited reach—and therefore cannot achieve economies of scale. Since its inception in 1990, Palli Karma Sahayak Foundation (PKSF) has delivered financial intermediation along with a holistic solution set for poverty alleviation, including capacity building, technical support and wholesale lending to 275 partner organisations operating in small and large communities. As MFIs grow and demonstrate creditworthiness, PKSF

creates linkages to commercial banks, which allows MFIs to access more funding for on-lending to the mass market. These linkages include market-bridging instruments such as partial guarantees.

Key drivers of inclusion-related progress

The following features drove the extensive expansion of microfinance in Bangladesh:

- **Deliberate focus on poverty alleviation:** Through a robust set of solutions, PKSF has helped reduce poverty by increasing the earning capacity of the most excluded groups.
- **Robust microcredit solutions:** PKSF offers five categories of microcredit programmes: rural microcredit, urban microcredit, micro enterprise credit, ultra-poor credit and seasonal credit with varying pricing and tenure available to three categories of partner organisations.
- **Cheaper cost of funds due to diverse sources:** PKSF mobilises funds through grants; loans from a wide range of actors, including international donors; capital markets; sovereign wealth funds; private institutions and the government. As a result, the cost of funds is lower than the market rate.
- **Good governance:** A dynamic governing body drawn from funding institutions manages PKSF and sets up policy guidelines and standards for its partner organisations to ensure low levels of delinquency. PKSF has successfully kept its loan loss expenses low and maintained a high repayment rate—between 2012 and 2016, the loan repayment rate ranged from 98.4% to 99.2%. Importantly, although PKSF was established and partly funded by the Bangladesh government, it operates as an independent institution protected from government bureaucracy.

Impact

- **Expanded microcredit funding:** MFIs capital for microcredit programmes grew significantly due to PKSF. From inception in 1990 to 2016, PKSF has disbursed USD 2.9 billion cumulatively.
- **Female empowerment through increased credit access:** Microcredit programs have increased women's participation in the economic activities. Of the USD 349 million disbursed to 9.4 million members as of fiscal year 2016, 91.5% beneficiaries were women²⁴.

Risks

Though PKSF has extended access to credit to a larger population, there are inherent risks to be considered:

- **Limited tailored products for the ultra-poor:** In the early years of PKSF, focus was largely on providing financing and technical support for those who are above or near the poverty line, not below, posing the risk of widening inequality gap in Bangladesh. Like other microcredit programs in Bangladesh, the ultra-poor have always been excluded from the benefits of microcredit services because of the perceived belief that they are vulnerable to loan repayment. Realising this gap, in 2002, PKSF launched an experimental program for the ultra-poor with support from the World Bank. Leveraging learnings from the pilot program, in 2004, PKSF developed a bespoke program known as the Ultra Poor Program (UPP) with the fund of the Government of Bangladesh, as a mainstream microcredit service that best suits the economic and social dynamics of this group.

4.4.4 Implication for Nigeria

Increasing the capacity of community-based finance institutions in Bangladesh helped MSMEs, women and other underserved groups in Bangladesh gain access to finance, deepening financial

²⁴ Palli Karma-Sahayak Foundation (PKSF), Annual Report 2016

inclusion. In the Nigerian context, community-based financial institutions would benefit from tailored interventions – investment capital and appropriate regulation – to support their growth and focus on excluded groups, which would in turn drive inclusion. Introducing regulations aimed at tailoring licensing, market entry and business operating requirements to match specific financial inclusion goals of community-based financial institutions would further help expand access to finance to the most excluded groups.

EXPOSURE DRAFT

4.5 Drive adoption of cashless payment channels, particularly in G2P and P2G payments

4.5.1 Statement of problem

Across Nigeria, adoption of digital payments platforms, which cost up to 85-95% less than serving the un/underserved in a banking hall²⁵, has so far been limited. Government transfers worth USD 227 million per annum to social programme beneficiaries. This demographic includes people who are typically un/underserved, presenting an opportunity to drive inclusion by digitising these transfers and requiring recipients to own bank or mobile money accounts to receive their transfers. As seen in India, digitisation of G2P payment—especially social benefits—can indeed significantly move the needle on inclusion of un/underserved demographics.

4.5.2 Strategic design principles

To drive adoption of digitised G2P/P2G payments, the following principles are key:

- **Obtain 100% digitisation of G2P/P2G payments, ensuring that the government leads by example and reaches large numbers of the un/underserved:** Currently, only 60% of federal government flows have been digitised²⁶. This rate is lower at the state government level and lowest at the level of local government. Local governments have the strongest interface with the financially un/underserved. If they lead in the adoption of digital payment, the potential for a trickle-down effect is high. One way to achieve this is to push for compulsory digitisation of all state and local government payments, including all social benefit transfers.
- **Optimise access to minimise transaction costs for users:** As a specific implementation of the generic drive towards granular access points (through agents and other routes), government payments should be made and received close to people's homes and places of work—mandatory use should not lead to significantly increased costs for the individuals involved due to transportation. This may require government and donor funding if the business case for private sector involvement is insufficiently strong (which is likely to be the case in some regions). Universal access can, for instance, be achieved by setting up G2P/P2G payment service kiosks at every local government office, with these kiosks eventually becoming centres for non-government transactions, as well.

4.5.3 Case study

Digitised G2P/P2G payments in India

Background: The Government of India has embarked on a large-scale digitisation scheme to, amongst other outcomes, digitise social benefit payments and the delivery of public services at the local government level. As part of this drive, the government has pushed for demonetisation, i.e., increased usage of digital/cashless transactions both within and outside of the government system. The Indian government has since made deliberate efforts to bank the poor and extend government services to remote areas. To ensure that social benefit payments can indeed be digitised, in 2014, the Pradhan Mantri Jan Dhan Yojana scheme (PMJDY) was launched with the goal of opening bank accounts for 75 million unbanked Indians.

Prior to that, in 2001, the first government service kiosks—called eSeva centres—were launched in the Twin Cities of Hyderabad and Secunderabad. eSeva is a programme expanding the reach of government services by establishing centres / kiosks in communities. In each centre, citizens can make payments to the government and access a range of public services. The centres are now

²⁵ International Finance Corporation, *Mobile Financial Services: Its role in banks and markets* 2014

²⁶ Ibid.

available in every municipality in the nation.

Key drivers of inclusion-related progress

The following are key success factors in India's digitisation of government payments:

- **Political will:** The government was heavily invested in the process and garnered the support of the financial sector.
- **Financial support:** The government provided interest-free loans to SMEs and cooperatives to establish eSeva centres. Female eSeva owners in rural India were among the greatest beneficiaries of this support.
- **Support of the financial sector:** The financial sector's support was essential to meeting (and actually exceeding) in less than a year the target set for new accounts.

Impact

- **125 million bank accounts were opened in less than a year**, with 75 million accounts opened in rural areas and 50 million accounts opened in urban areas.
- ESeva centres were opened in every municipality in the country.

Risks

Although India has adopted a range of initiatives leading to significant increase in G2P and P2G transactions, a number of factors can have adverse effects on the continuous adoption of digital payment by consumers, including:

- **Fund diversion:** The risk of cyber-attacks leading to payment diversion is becoming increasingly prominent in India. Cyber criminals are gradually becoming sophisticated in their use of advanced tools. Hence, it is imperative for government to make concerted efforts towards fighting cyber-crime.
- **Mistrust:** The absence of a structured regulatory framework for redress of transaction failures has led to distrust or negative bias towards digital financial transaction channels.

4.5.4 Implication for Nigeria

As seen in the case of India, adoption of cashless payment channels increased due to cohesive efforts made by the government and private sector actors. As previously discussed, some level of government payment digitisation exists in Nigeria—and state governments, such as that of Kano, have witnessed the positive effects of this. Nigeria can also achieve widespread digitisation of G2P and P2G payments if the following take place:

- Deliberate efforts are made to create an enabling infrastructure for end-to-end payment.
- A viable business case is presented to banks and agents to provide points of access in remote areas.
- There is political buy-in for payment digitisation across the three tiers of government.
- Adequate mechanisms are developed for complaint management and rapid resolution.

5 Implementation approach and plan

5.1 Structure for coordination and organisation

Throughout this NFIS, concerns have been highlighted on the structure for coordination and organisation, most notably: (1) suboptimal engagement across competing objectives that need to be met alongside financial inclusion objectives, (2) suboptimal engagement of a wide range of stakeholders at the appropriate seniority level to come to relevant decisions, and (3) long timelines (as perceived by stakeholders) for approvals and the overall governance process. To overcome these challenges, a set of changes are proposed:

- A. **Appropriate convening power at the required seniority levels, driving balanced decision-making at the proper levels:** To drive financial inclusion within the CBN recommendations designed to strengthen financial inclusion, ideally have a stronger influence on financial inclusion innovations and regulations. There's also a need to organise for top-level convening power across relevant parts of government, as opposed to primarily within the Central Bank, ensuring similarly senior representation from NCC, PenCom, NaiCom, SEC, et al – as well as key private sector players at the most senior levels. This can be achieved in various ways and requires further management consideration and decisions. Financial inclusion should be elevated to the national economic agenda, for example by making financial inclusion an agenda item at *all* National Economic Council meetings²⁷.
- B. **Fit-for-purpose engagement:**
 - a. Per specific topic, FIS should apply a “small tent” approach—bringing together only the key stakeholders to unlock high-priority, unresolved issues to allow for rapid, targeted engagement to come to resolution.
 - b. In engagement of stakeholders, particularly those outside of the public sector, the upfront notification, timing and location can be adjusted to signal the importance of engagement of all stakeholders. For example, alternating meeting locations between Lagos and Abuja would strongly signal to private sector stakeholders based in Lagos that their time and contribution are genuinely valued – to the point that other stakeholders are willing to travel to them for some meetings.

5.2 Action plan

The action plan contains priority actions required to drive an increase in financial inclusion in Nigeria from 2018 to 2020. The action plan does not include all actions that may be required to drive financial inclusion, and instead focuses on the most critical activities over the next two years. The action plan should be revised depending on the implementation progress of each activity.

Table 4, below, highlights a set of actions necessary for the implementation of the strategic principles, prioritizes these actions, and assigns roles and responsibilities for carrying them out. The proposed implementation period is 2018 to 2020.

In assigning roles and responsibilities, the action plan follows the RACI framework, discerning the following roles:

²⁷ A coordinating structure outside of the CBN could also work. However, adjustments to the current structure may be able to achieve the objectives without getting distracted by an organisational change process that would take away attention and resources from progress on financial inclusion – all subject to further consideration of management

- **Responsible:** Those who do the work to complete the task. There is at least one role with a participation type of responsible, although others can be delegated to assist in the work required.
- **Accountable:** The one ultimately answerable for the correct and thorough completion of the deliverable or task, and the one who delegates the work to those responsible. In other words, an accountable party must sign off (approve) work that the responsible party provides. There must be only one accountable party specified for each task or deliverable.
- **Consulted:** Those whose opinions are sought, typically subject matter experts, and with whom there is two-way communication.
- **Informed:** Those who are kept up-to-date on progress, often only on completion of the task or deliverable; and with whom there is just one-way communication.

When this framework is applied to the NFIS context in Nigeria, the following becomes clear:

- The **accountable** party always is the most senior actor in the organisation in which the *responsible* operates. For example, if the responsible actor is within the CBN, the accountable actor is the Governor of the CBN.
- Given the nature of financial inclusion and the interconnectedness of various policy topics, there will always be many **consulted** parties. In line with the recommendation above on a 'small tent' approach, it is advisable to consult those most affected most deeply and frequently, whereas other stakeholders may be consulted less frequently or even just be informed. In the table of the action plan, those stakeholders to be consulted most frequently and most deeply are listed – the regular governance mechanisms including the FITC and the Financial Inclusion Steering Committee (FISC) will provide engagement opportunities for the other stakeholders.
- Similarly, a wide range of stakeholders will be **informed** about the progress on the actions from the consulted parties to the public. In the action plan for the NFIS, this role is excluded, but is seen to include all relevant stakeholders including public, private, and social sector stakeholders as well as the general public for most actions.

Actions are assigned high, medium or low priority status based on the following:

- **High:** Must be urgently executed and has a high number of dependencies (i.e., other actions relying on its implementation);
- **Medium:** Not urgent but important action, with few dependencies; and
- **Low:** Relatively low importance, with very few dependencies.

In line with the structure of the NFIS, the action plan contains actions to achieve (1) the proposed structure for coordination and organisation, (2) the overarching design principles, and (3) the topic-specific design principles.

Table 5: Refreshed NFIS action plan, 2018-2020

Topic/ objective	Actions	Responsible	Priority	Timeline		
				2018	2019	2020
Overall	<p>After approval of the strategy, define:</p> <ol style="list-style-type: none"> 1. A communication strategy 2. An integrated budget and resourcing plan 	<p>Responsible: National Economic Council – proposed to be delegated to FIS</p> <p>Consult: all relevant stakeholders pertaining to financial inclusion execution and budgets</p>	High			
Create an effective and efficient structure for coordination and organisation	<p>Put in place an effective and efficient structure, in a few steps:</p> <ol style="list-style-type: none"> 1. Work with key senior stakeholders to confirm desired structure and reporting lines 2. Determine the scope, responsibilities, mandate (decision rights), composition and meeting frequency of each of the elements of the structure 3. Staff key roles (if new/ adjusted roles arise) <p>As a starting point, the following changes are suggested based on the barriers that have been identified:</p> <ul style="list-style-type: none"> • Elevate financial inclusion to the national economic agenda— make financial inclusion an agenda item at <i>all</i> National Economic Council meetings • Research and consider organisational options to strengthen coordination – and select organisational option • Incorporate <i>N-1 or higher</i> attendance at quarterly Financial Inclusion Steering Committee meetings as an indicator. <i>N-1 or higher</i> refers to attendance by the most senior representative (“N” being, for example, the managing director / CEO / governor) or a representative at the organisational level immediately below (“N minus one”) • Focus working groups and the FITC on attempting to resolve regulatory coordination, directing public and philanthropic capital towards the most excluded groups 	<p><i>For national agenda:</i> Responsible: National Economic Council</p> <p>Consult: Financial Inclusion Secretariat (FIS), Central Bank of Nigeria; Office of the Central Bank Governor, Federal Ministry of Budget and Planning</p> <p><i>For organisation shifts</i> Responsible: Committee of Governors (during organisational review)</p> <p>Consult: FIS, DFD, other relevant departments, FITC and FISC members</p> <p><i>For stakeholder engagement</i> Responsible: FIS</p> <p>Consult: various stakeholders</p>	High			

Topic/ objective	Actions	Responsible	Priority	Timeline		
				2018	2019	2020
	<ul style="list-style-type: none"> Ensure a broad range stakeholder engagement, including lawmakers and relevant state and local government officials Enlist the support of the Financial Services Regulation Coordination Committee (FSRCC) to coordinate the engagement of financial system regulators 	from public, private, social sector				
Create an appropriately regulated level playing field	<ul style="list-style-type: none"> Determine list of activities for which an appropriately regulated level playing field needs to be created (e.g., financial services including financial transaction services, savings, credit, insurance, pension, group products – all both physical and digital as well as telecommunication services: voice, text messages, data) Determine an appropriate grouping of these activities based on which eligibility criteria and regulation can be defined – taking into account it should be understandable for customers/ consumers and practically feasible to regulate²⁸. Allocate responsibility to make action plans for each of these identified groups of activities 	<p>Responsible: All regulatory bodies will need to conduct a review of relevant policies to determine whether they provide a level playing field. E.g., SEC would review regulations and policies related to securities activities.</p> <p>Consult: Relevant private sector actors, related public sector agencies</p>	High			
	<p><i>Per identified group of activities:</i> Determine relevant regulatory framework and licensing regime required to create an appropriately-regulated, level playing field allowing a range of various actors to provide the services as specified in the activities:</p> <ol style="list-style-type: none"> A. Determine implications for current licensing regime and whether or not a new class of licenses is required B. Engage deeply with relevant stakeholders to ensure various objectives are appropriately balanced, seeking senior stakeholder engagement to align on trade-offs (particularly relevant to ensure financial system stability is appropriately taken into account when financial inclusion calls for changing/ introducing new, more flexible licences or licences with lower requirements/ bars C. Based on outcome of A and B: <ol style="list-style-type: none"> a. Develop specific requirements for actors to engage in 	<p><i>Roles will vary per activity. For DFS, this is highlighted in the topic-specific articulation. For other activities, it will depend on the group of activities</i></p>	High			

²⁸ To keep this manageable, one wouldn't want to regulate each activity with separate licences

Topic/ objective	Actions	Responsible	Priority	Timeline		
				2018	2019	2020
	<p>the activity (for example capital, coverage/reach, governance, information systems etc.) under the new licensing regime; or</p> <p>b. Determine specific changes to existing regulations required to create a level playing field</p> <p>D. Determine necessary changes to statutory frameworks required to guarantee fair competition and ensure compliance with set guidelines and regulations</p> <ul style="list-style-type: none"> • Engage all stakeholders (e.g., for DFS this would be DMBs, MFBs, MMOs, MNOs and other connectivity infrastructure providers) to develop inventory of anti-competitive risks/concerns • Develop necessary anti-competitive regulations that allow for level playing field along with compliance enforcement measures and regulatory instruments for default deterrence • Determine monitoring and reporting mechanism • Determine sanctions and sanctioning regime <p>E. Secure necessary approvals and translate to appropriate set of policies and regulations</p> <p>F. Communicate new/ revised policies and regulations</p>					
Ensure that each actor focuses on activities that best suit its capacity whilst all maintain an inclusive lens as much as possible ²⁹	<p>Focus government appropriately:</p> <ul style="list-style-type: none"> • Review the set of <i>government-led and government-financed activities</i> to ensure those are focused solely on those areas where government has the key role to play: (1) creating an appropriate regulatory context in which innovation can take place, (2) Creating public goods (in a pre-competitive setting) which may not be viable to invest in for any one private sector actor but which strengthen the business case for subsequent investment by the private sector and (3) Overcoming obstacles that hinder the business case for private sector actors • If the review shows that government focuses on other things 	<p>Responsible: FIS, CBN</p> <p>Consult: Relevant private sector actors, related public sector agencies across different activities</p>	High			

²⁹ This general focus on inclusivity is a 'call to action' rather than a specific action. The action in this category focuses on targeting government and donor interventions

Topic/ objective	Actions	Responsible	Priority	Timeline		
				2018	2019	2020
	that have the potential to be either executed, financed or both by other actors, engage with those actors to transfer activities ³⁰					
	<p>Focus philanthropic resources appropriately:</p> <ul style="list-style-type: none"> Review the set of activities <i>to which philanthropic resources are deployed</i> to ensure those are focused solely on those areas where they are uniquely needed: (1) Creating public goods (in a pre-competitive setting) which may not be viable to invest in for any one private sector actor but which strengthen the business case for subsequent investment by the private sector and (2) Overcoming obstacles that hinder the business case for private sector actors If the review shows that philanthropic resources are deployed to activities that have the potential to be either executed, financed or both by other actors, engage with those actors to transfer activities 	<p>Responsible: FIS, CBN</p> <p>Consult: Relevant private sector actors, related public sector agencies across different activities</p>	Medium			
	<p>Continuously identify activities government/ philanthropic resources need to engage in:</p> <ul style="list-style-type: none"> As part of ongoing M&E, trace which activities and deliverables lag behind Explore, in case of delays in achievement, whether there's a need for a public good and/ or a need to overcome obstacles that hinder the business case for private sector actors³¹ Identify activities to be undertaken/ financed with public/ philanthropic resources, <i>taking care that this is done in spirit of a level playing field</i> 	<p>Responsible: FIS, CBN</p> <p>Consult: Relevant private sector actors, related public sector agencies across different activities</p>	Medium			
	<p>Implement a regulatory sandbox:</p> <ul style="list-style-type: none"> Identify first list of applications for which regulatory sandbox is necessary 	<p><i>For banking and payments</i></p> <p>Responsible: CBN Banking & Payment System Department</p>	High			

³⁰ An example could be the enrolment of NIN which various private sector actors have volunteered to take part in – probably resulting in lower overall cost, bigger reach and more rapid uptake

³¹ This will need to be done carefully to avoid that private sector actors 'wait' for public/ philanthropic resources to be deployed as subsidy where this may not be necessary

Topic/ objective	Actions	Responsible	Priority	Timeline		
				2018	2019	2020
	<ul style="list-style-type: none"> • Research requirements of regulatory sandbox (learning from other countries) • Design set-up of regulatory sandbox in Nigerian context including the interaction with the regular regulatory regime and the transition of innovations upon successful pilot from sandbox to regular regime (and/ or triggers to adjust regular regime upon successful pilot in sandbox) • Define eligibility/ selection criteria for applications to be allowed to run in the 'sandbox' set-up • Communicate sandbox set-up and design 	<p>(BPSD)</p> <p>Consult: Relevant private sector actors, related public sector agencies across different activities</p> <p>For other areas, determine which department will drive the process, determine whether regulatory sandbox is appropriate and can be appropriately implemented, and then implement the sandbox</p>				
Create a conducive environment for the expansion of DFS	Apply the same steps to determine a level playing field as articulated under the overarching principle, now specifically focused on DFS	<p>Responsible: CBN Banking & Payments System Department (BPSD)</p> <p>Consult: CBN Financial Policy & Regulation Department (FPRD), CBN Financial Inclusion Secretariat (FIS), Nigerian Communications Commission (NCC), Association of Licensed Mobile Payments Operator (ALMPO), Bankers' Committee</p>	High			
	Enforce compliance with all revised regulations and policies	<p><i>For banking and payments</i> Responsible: CBN Banking & Payments System Department (BPSD)</p> <p><i>For other activities</i> Responsible: relevant</p>	High			

Topic/ objective	Actions	Responsible	Priority	Timeline		
				2018	2019	2020
		regulators as called for by the revised regulations and/or policies Consult: CBN Financial Inclusion Secretariat (FIS), Nigeria Communications Commission (NCC), Association of Licensed Mobile Payment Operators (ALMPO), Bankers' Committee,				
	Identify areas with poor infrastructure coverage in financially underserved geographies, determine and prioritize constraints and encourage actors to deploy funding targeting those areas, towards achieving national coverage: A. Determine and publish current network infrastructure availability in Nigeria B. Determine and prioritize constraints and actions for relevant constraints C. Determine which areas need additional funding / incentives because the business case for private sector investment in infrastructure is insufficient D. Estimate the investment required to achieve national GSM coverage and share in a public document E. Deploy funds in those areas, sourcing additional funds if necessary ³²	Responsible: Nigerian Communications Commission (NCC) Consult: Mobile network operators, InfraCos (infrastructure companies), Federal Ministry of Communications, donor organisations, CBN Financial Inclusion Secretariat	High			
	<i>[To be implemented only if viable business case is not attained with other interventions]</i> Design special licence for connectivity infrastructure providers to improve viability of offering telecommunications services in un/underserved regions: A. Assess the viability of existing business models to serve un/underserved communities	Responsible: Nigerian Communications Commission (NCC) Consult: Federal Ministry of Communications, Federal	Medium			

³² The Universal Services Provision Fund (USPF) could be one of the fund sources looked into

Topic/ objective	Actions	Responsible	Priority	Timeline		
				2018	2019	2020
	<p>B. If viability is low, determine what can be done to “close the gap” (e.g., offering financial incentives, funding basic infrastructure, providing armed security officers)</p> <p>C. Anchor these incentives in a special licensing regime open to connectivity infrastructure providers who will expand access to un/underserved communities</p>	Ministry of Finance, donor institutions				
	<p>Identify and address cause of DFS transaction errors</p> <p>A. Understand nature, frequency and drivers of transaction errors</p> <p>B. Determine what needs to be done to eliminate/address causes of transaction errors</p> <p>C. Design system/programme for resolution and execute</p> <ul style="list-style-type: none"> • Determine budgetary and other resource requirements • Source budget and implement new system 	<p>Responsible: CBN Consumer Protection Department (CPD)</p> <p>Consult: Nigeria Inter-Bank Settlement System (NIBSS); Nigeria Communications Commission (NCC); all DFS actors; BN Other Financial Institutions Supervision Department (OFIS)</p>	Medium			
	<p>Design customer complaint treatment system for DFS</p> <p>A. Identify nature, cause and frequency of errors</p> <p>B. Identify existing avenues for complaint/recourse</p> <p>C. Determine inefficiencies in addressing complaints — delays, wrongful treatment etc.</p> <p>D. Determine what a new efficient model would look like</p> <p>E. Determine budgetary requirements to implement the new system</p>	<p>Responsible: CBN Consumer Protection Department (CPD)</p> <p>Consult: Association of Licensed Mobile Payment Operators (ALMPO), Nigeria Inter-Bank Settlement System (NIBSS), Bnkers’ Committee; CBN Other Financial Institutions Supervision Department (OFIS)</p>	Medium			
	<p>Determine relevant regulatory framework or policy required to operationalise the recommended model for complaint treatment</p> <p>A. Determine whether new policies / regulations are required</p> <p>B. Prepare new policy/regulation for prompt DFS complaint resolution in order to foster increased trust in the system</p> <p>C. Run approval process</p> <p>D. Communicate new policy/regulation for complaint treatment</p>	<p>Responsible: CBN Consumer Protection Department (CPD)</p> <p>Consult: CBN Financial Policy & Regulation Department (FPRD), CBN Banking & Payments System Department</p>	Medium			

Topic/ objective	Actions	Responsible	Priority	Timeline		
				2018	2019	2020
		(BPSD), Association of Licensed Mobile Payment Operators (ALMPO), Nigeria Inter-Bank Settlement System (NIBSS), Bankers' Committee, CBN Corporate Communications Department (CCD), Nigeria Inter-Bank Settlement System (NIBSS)				
Enable the rapid growth of agent networks with nationwide reach	<p>Determine relevant regulatory framework and licensing regime required to drive agent network expansion:</p> <p>A. Determine agent network licensing framework that allows participation by a larger pool of players, while ensuring consumer protection and not jeopardising national security</p> <ul style="list-style-type: none"> • Identify minimum agent licensing requirements for AML/CFT purposes • Identify non-operational costs imposed by government and determine which can be eliminated or reduced (e.g., outdoor advertising fees) <p>B. Review licensing and operation requirements to reflect minimum requirements for AML/CFT, so licence protects national security but also allows a wider pool of players</p> <p>C. Design framework for agent network reporting to ensure compliance with AML/CFT requirements</p> <p>D. Revise the agent banking guidelines/regulations in line with the revised framework to manage the following: (i) eliminate fixed agent fee; and (ii) adjust agent and agent network licensing requirements to the minimum required to meet various objectives</p> <p>E. Secure approvals</p> <p>F. Communicate the new regulation/policy</p>	<p>Responsible: CBN Banking & Payments System Department (BPSD)</p> <p>Consult: CBN Financial Inclusion Secretariat (FIS), CBN Banking Supervision Department, CBN Financial Policy & Regulation Department (FPRD), Financial Inclusion Steering Committee (FISC), CBN Corporate Communications Department (CCD)</p>	High			
Reduce KYC hurdles to operating an	<p>Design requirements for KYC that are appropriate to exposure risk without requiring more than is necessary:</p> <p>A. Determine minimum identification requirement for AML/CFT</p>	Responsible: CBN/Banking & Payments Systems Department (BPSD)	High			

Topic/ objective	Actions	Responsible	Priority	Timeline		
				2018	2019	2020
account	<p>purposes, given limited risk exposure for tier 1 accounts</p> <p>B. Understand reasoning behind difference in requirement for tier 1 and 3 bank accounts and tier 1 and 3 mobile money accounts, and address issue(s) in design where necessary/possible</p>	<p>Consult: CBN Financial Inclusion Secretariat (FIS), CBN Banking Supervision Department, CBN Other Financial Institutions Supervision Department (OFISD), CBN Financial Policy & Regulation Department (FPRD), Association of Licensed Mobile Payment Operators (ALMPO), Financial Inclusion Steering Committee (FISC), CBN Corporate Communications Department (CCD)</p>				
	<p>Anchor requirements in appropriate set of policies and regulation:</p> <p>A. Harmonise identification/KYC requirements across all tiers</p> <p>B. Communicate new policy/regulation</p>	<p>Responsible: CBN/Banking & Payments Systems Department (BPSD)</p> <p>Consult: CBN Other Financial Institutions Supervision Department (OFISD), Association of Licensed Mobile Payment Operators (ALMPO), Financial Inclusion Secretariat (FIS), CBN Corporate Communications Department (CCD)</p>	High			
	<p>Design national ID enrolment system for speedy nationwide enrolment</p> <p>A. Determine minimum required identity fields for issuance of unique ID</p> <p>B. Determine level of ID verification feasible in geographies with marginalised populations</p>	<p>Responsible: National Identity Management Commission (NIMC)</p> <p>Consult: Nigeria Inter-Bank</p>	High			

Topic/ objective	Actions	Responsible	Priority	Timeline		
				2018	2019	2020
	<ul style="list-style-type: none"> C. Identify enrolment practices necessary for conformity with cultural practices/religious dispositions in each geography e.g. both male and female enrollers in conservative communities or the importance of enrollers that speak a local dialect D. Determine ToR and business model to attract third-party enrollers 	Settlement Systems (NIBSS), Nigerian Communication Commission (NCC), National Pension Commission (PenCom), Independent National Election Commission (INEC), Federal Road Safety Commission (FRSC), CBN Financial Inclusion Secretariat (FIS)				
	Determine appropriate regulatory or licensing changes to support widespread, universal national ID enrolment — validate the extent to which NIMC’s recently gazetted Front-End Licensing Regulations (2017) addresses the proposed revisions		High			
	Communicate new policy/regulation for national ID enrolment		High			
	Design system for securing unique national ID database <ul style="list-style-type: none"> A. Determine system requirements for securing identity data B. Build necessary infrastructure and policies to secure identity data C. Enforce policy compliance 		Medium			
Create a conducive environment (for FSPs) to serve the most excluded	Direct public donor funds towards building business case for serving the underserved <ul style="list-style-type: none"> A. Determine the potential economic value to be derived from serving the un/underserved and support business models to do so (i.e., what models are best suited to profitably serve the un/underserved) B. Educate the un/underserved on the benefits and availability of financial products and services—thereby increasing the addressable market for FSPs 	Responsible: CBN Financial Inclusion Secretariat (FIS) Consult: CBN Development Finance Department (DFD), CBN Consumer Protection Department, Securities and Exchange Commission (SEC), Ministry of Youth and Sports, Federal Ministry of Education, National Educational Research & Development Council (NERDC), CBN Banking & Payments Systems Department (BPSD), donor organisations	High			
	Supplement / provide incentives for investment in serving the un/underserved: determine what is needed to bridge gaps in business	Responsible: CBN Development Finance	High			

Topic/ objective	Actions	Responsible	Priority	Timeline		
				2018	2019	2020
	model viability (e.g., initial capital to catalyse investment or tax / fee holiday rather than ongoing subsidy, security support/addressing security situation in Northern Nigeria, etc.)	Department (DFD) <i>and other relevant regulatory departments for non-bank interventions</i> Consult: Financial Inclusion Secretariat, CBN Banking & Payments Systems Department (BPSD); CBN Other Financial Institutions Supervision Department (OFISD), donor organisations				
	Determine relevant regulatory framework and licensing regime to better enable community-based financial institutions to serve the most underserved: A. Determine context-specific licensing and regulations that allow community-based financial institutions to be robust and capable to serve the underserved (e.g., tailoring licensing, market entry and business operating requirements) B. Make sure the requirements reflect differences in geography and consequential profitability across these institutions C. Review licensing and operational requirements D. Revise existing community-based financial institution licensing frameworks and regulations (e.g., Microfinance Banking regulations, etc.) E. Secure approvals F. Communicate the new regulation/policy	Responsible: CBN Other Financial Institutions Supervision Department (OFISD) Consult: CBN Development Finance Department (DFD), CBN Financial Inclusion Secretariat (FIS), Federal Ministry of Agriculture and Rural Development, National Association of Microfinance Banks (NAMB), Association of Non-Bank Microfinance Institutions OF Nigeria (ANMFIN), Financial Inclusion Secretariat (FIS)	Medium			
	Create level playing field for non-interest players, to expand reach to un/underserved communities with preference for non-interest products A. Develop non-interest intervention funds and windows specifically for non-interest FSP access (for on-lending to un/underserved groups with non-interest preferences)	Responsible: CBN Development Finance Department (DFD) Consult: CBN Banking	Medium			

Topic/ objective	Actions	Responsible	Priority	Timeline		
				2018	2019	2020
	B. Communicate availability of these fund to the target demographic	Supervision Department, CBN Consumer Protection Department (CPD), CBN Financial Inclusion Secretariat (FIS)				
Drive adoption of cashless payment channels, particularly in G2P/P2G	Understand obstacles to digitisation of G2P/P2G payments A. Determine requirements to drive buy-in of 100% G2P/P2G digitisation B. Engage stakeholders at Ministry of Finance and Office of the Auditor General as well as local/state/federal government finance officials to understand the obstacles to adoption of digitised payments	Responsible: CBN Financial Inclusion Secretariat (FIS) Consult: National Social Safety Net Program (NSSNP), Governors Forum, State Ministries of Finance, State Ministries of Budget and Economic Planning, Local Government Council Chairs, donor organisations	High			
	Address obstacles to digitisation of G2P/P2G payments: A. Ensure availability of payment access points (following from expansion of DFS), with at least one point in every local government area B. Estimate cost implication of and cost savings to digitisation and source funding (from public/government or donor sources) as required C. Determine appropriate reporting parties and build system for reporting level of payment digitisation at state and local government levels	Responsible: CBN Financial Inclusion Secretariat (FIS) Consult: National Social Safety Net Program (NSSNP), Governors Forum, State Ministries of Finance, State Ministries of Budget and Economic Planning, Local Government Council Chairs, donor organisations	High			
	Determine relevant regulatory requirements for digitisation of all social benefit payments and payment at the local government level (with planned progression, to eventually reach 100% digitisation of government payments)	Responsible: Federal Ministry of Finance Consult: Governors' Forum, State Ministries of Finance, State Ministries of Budget and Economic Planning, Local	High			

Topic/ objective	Actions	Responsible	Priority	Timeline		
				2018	2019	2020
		Government Council Chairs, CBN Financial Inclusion Secretariat (FIS)				

Exposure Draft

5.3 Measurement framework

The monitoring and evaluation (M&E) of the refreshed strategy focuses on key metrics in order to check progress against the action plan. Figure 10 below provides an overview of the framework. The complete framework will consist of:

1. Overall outcome indicator (total inclusion)
2. Dashboard indicators which are *leading indicators* for the state of financial inclusion. The dashboard indicators track key drivers for inclusion frequently, to allow for course correction if need be. This is necessary because the outcome indicator is constrained by lack of available data: for example, nationally representative state of financial inclusion surveys are conducted only every two years. Targets for these dashboard indicators are set to track progress towards the outcome indicator – but are not to be treated as objectives in and of themselves.
3. A detailed list of indicators and targets which will be used to track further progress across the principles outlined in the refreshed strategy.

Overall, this set of indicators and targets will replace those outlined in the 2012 strategy and any individual institutional targets, given the new approach to financial inclusion outlined in the refreshed strategy, and given the focus on creating a level playing field (e.g., rather than mandating which channels are used to achieve financial inclusion).

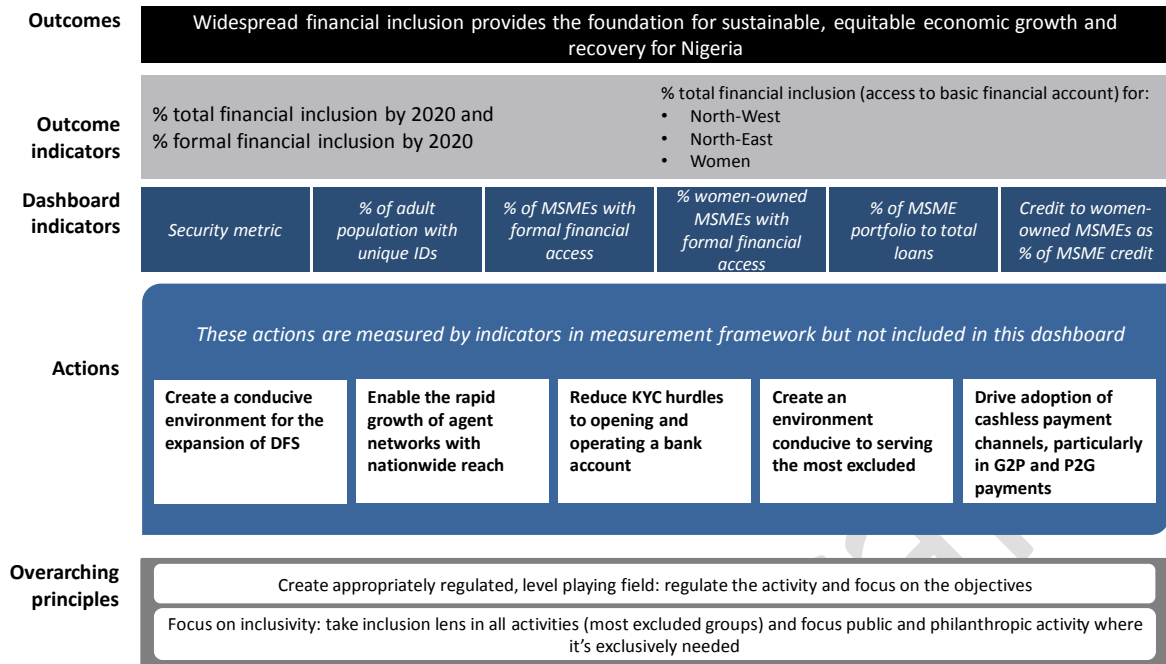
The indicators have been selected based on an identification of what's the crucial metric to track progress whilst being realistic on whether data is available. In a limited set of crucial cases, proxy indicators won't be sufficient and new data is suggested to be collected in order to track a metric that previously wasn't tracked – or not with the necessary frequency.

To determine targets for the indicators, the method as recommended by AFI (and deployed in the NFIS of multiple AFI members) is used:

- A. The target is represented as a range for now – with a specific target to be agreed upon through stakeholder engagement
- B. The *lower end* of the range is driven by an extrapolation based on Nigeria's past growth rate. If the recent development in Nigeria has been a *decline* in performance, the lower end of the range is set at keeping the metric constant.
- C. The *higher end* of the range is driven by a comparison to other countries – taking into account both their absolute level of performance and their growth rate. Care is taken to select countries and periods in their development that are an appropriate comparison for Nigeria³³.

³³ This takes into account stages of growth. For example, for almost all metrics, the growth rate can be a lot higher in earlier stages once a first foothold has been realised whereas getting to the last 20-30% of the population, is the hardest and requires most resources.

Figure 10: Proposed measurement framework

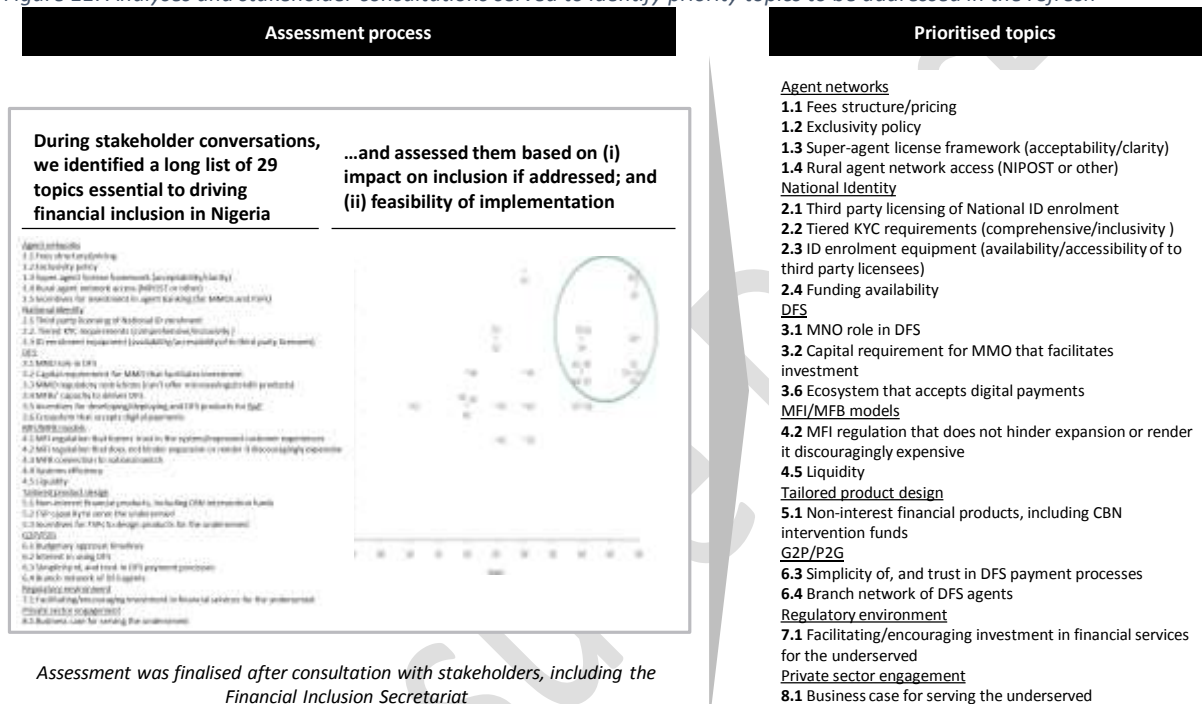


EXPOSURE DRAFT

Annex: Approach to strategic prioritisation

Figure 11 below illustrates the process that led to the prioritised topics around which the refreshed strategy is based. All recommended actions were assessed along two dimensions: i) potential impact on inclusion and ii) feasibility of implementation. Assessment relied both on comparative studies of cases where such actions had been implemented in similar jurisdictions elsewhere in the world and on supporting literature on trajectories for financial inclusion. Feasibility of implementation relied on stakeholder perspectives on the constraints to implementation in the specific context of the operating landscape in Nigeria.

Figure 11: Analyses and stakeholder consultations served to identify priority topics to be addressed in the refresh



Assessment was finalised after consultation with stakeholders, including the Financial Inclusion Secretariat