



FINANCIAL INCLUSION LEAVES RURAL HOUSEHOLDS BEHIND: EVIDENCE FROM DELTA STATE, NIGERIA

POLICY BRIEF

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WHY FINANCIAL INCLUSION MATTERS

Financial inclusion refers to making financial products and services accessible and affordable to all individuals and businesses, regardless of their net worth or company size. Financial inclusion strives to remove the barriers that exclude people from participating in the financial sector and using these services to improve their lives. The internet and Information Communication Technology (ICT) which drives cashless economy is key to financial inclusion as it enables underserved populations and market segments to be reached. This policy brief draws from a NISER study data to examine rural/urban differentials in access to financial services and levels of participation in cashless economy.



Source: <https://www.linkedin.com/pulse/financial-inclusion-nigeria-way-forward-ujunwa-umeokeke>

EXECUTIVE SUMMARY

The Central Bank of Nigeria reported that higher rates of financial exclusion are recorded in the northern part of the country. In the southern part also, 31% of persons in the south-south geopolitical zone have no access to financial services. An encouraging level of access comes from Delta State which indicates that 60.8% of persons in the state have access to financial services (CBN, 2018). Data used in this brief come from three LGAs, one each selected from the three senatorial districts in Delta state, including Asaba LGA, the state's capital. One urban and one rural community were chosen in each of the LGAs, totalling six communities.

Results indicate that all the rural communities in the selected LGAs do not have banking facilities. Also, both the urban and rural households indicated willingness to adopt digital financial transactions for socioeconomic activities, but they were unwilling to use internet-based transactions due to data-related costs. The study concludes that the gap in the financial inclusion between urban and rural households in the state is directly related to the availability and use of financial services, and the use of the internet and Information Communication Technology (ICT) for cashless transactions.

Key Recommendations:

- ✓ The government should collaborate with the banking and telecommunication sectors to improve banking and internet services in rural communities for financial inclusion.
- ✓ Financial institutions should take advantage of the vast market of rural areas to increase their reach and impact to increase their business benefits and assist in bridging the financial inclusion gaps between urban and rural areas.

1.1 Background

The move from a cash-based system, where people carry out financial transactions in everyday socioeconomic activities to a cashless system where digital transactions are used is a great stride to development in society. However, the successful implementation of a cashless policy in a society like Nigeria where there is inequality in access to banking and telecommunication facilities and services may stall the inclusiveness of a cashless policy, given the prevailing urban-rural inequality.



Source: <https://www.premiumtimesng.com/investigationspecial-reports/634757-special-report-rural-farmers-in-nigerias-capital-count-losses-amid-poor-mobile-telephony.html>

Financial inclusion is important in bridging the gap between urban and rural households, as it generally targets the unbanked population in society. Amongst the financially excluded in any society are women, poor adults, people outside the labour force and the less-educated group (Demirgüç-Kunt, Klapper, Singer, and Ansar, 2022).



Source: <https://www.theafricareport.com/309641/emefieles-cashless-policy-aggravates-nigerias-food-security/>

Although cashless transactions have been in operation in Nigeria since 2011, cash-based transactions still dominate the socioeconomic spaces of business transactions, particularly in rural areas. Nonetheless, in 2022, the government attempted an almost complete move from a cash-based to a cashless economy. This was premised on the increasing spate of kidnappings for ransom and other acts of terrorism, problems of counterfeit naira notes, and growing concerns of inflation which led to the naira redesign by the Central Bank (CBN) in 2022. This attempt by the CBN to operate a full-fledged cashless economy in Nigeria created several challenges, including the absence of new notes in the banks and with money agents, long queues in the banks, at ATM locations, a near-absence of cash for over-the-counter withdrawals. All these stalled the continuation of the move towards a completely cashless economy billed to commence in January 2023, with a court order that prevented the government from further implementation of the policy.



Source: <https://techeconomy.ng/driving-cashless-economy-on-steroids-strategic-or-suicidal/>

Although the transition to a full-fledged cashless economy has been suspended until the end of 2023 following a court order, an analysis of the effect of a cashless economy on different population groups is important in the face of a growing trend of social challenges in the country. Hence, this policy brief examines households' financial inclusion and willingness to adopt digital financial transactions in Delta State, emphasising urban-rural environments using household data from the three senatorial districts of the state (one LGA each), and two communities (urban and

rural) from each LGA in which a total of 330 persons were interviewed.

2.0 FINDINGS

2.1 Access to Formal Saving Facilities

For access to formal savings facilities, commercial banks account for the highest means of savings (64.2%), followed by Opay (28.5%) 76.2% and 52.4% of urban and rural households respectively using commercial banks for savings.



Source: <https://www.alamy.com/stock-photo-a-sign-of-microfinance-and-gt-bank-in-rural-nigeria-africa-74315876.html>

Also, 97% of urban households indicated the presence of banking facilities in their communities compared to 2% in rural areas. Although all the rural respondents did not have banking facilities in their communities, 2% indicated that having access may be due to the proximity of such banks.

2.2 Ownership of Bank Accounts, Access to ATM and POS Points

For ownership of bank accounts, 80.9% and 68.1% of the urban and rural households indicated owning bank accounts

While as high as 93.9% of urban households had access to ATM points in their communities, only 3% of the rural households alluded to that, which may also be due to proximity to the ATM points

in urban locations and not necessarily their communities.

However, 97% of the rural households indicated the presence of POS points in their communities.

2.3 Availability of GSM Internet Networks and Ownership of Smart Phones

Almost all the respondents (98.8%) indicated the presence of mobile networks in their communities, with MTN (93.6%) being the dominant network.

72.6% of urban respondents indicated ownership of phones and only 45.2% own smartphones.

2.4 Use of Mobile Phones for Financial Transactions

Although most of the respondents (71.8%) use their phones for financial transactions, only 18.8% make use of internet banking, with most (51.8%) of rural respondents using USSD codes.

Results indicate 66.9% of the urban respondents have high financial inclusion level while only 33.1% of rural respondents fell into the category of high financial inclusion.

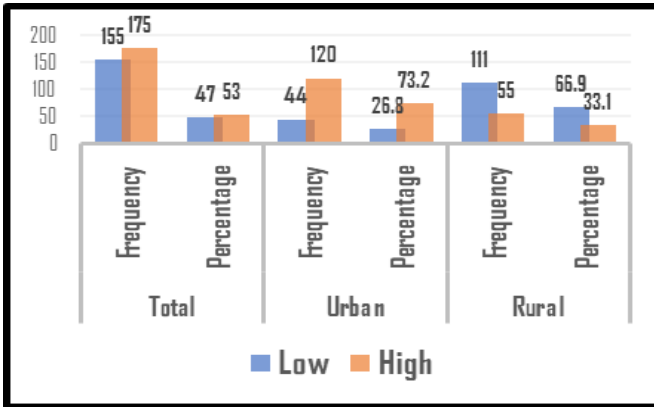


Figure 1: Level of financial inclusion of the households

2.5 Effects of Cashless Policy on Socioeconomic Activities of Households

Most of the respondents (77.3%) indicated that the cashless policy had a positive effect on their

socioeconomic activities as it saves time of going to the bank (96.7%), ease of payment for services (96.7%), and ease of access to credit from digital financial services (95.8%).

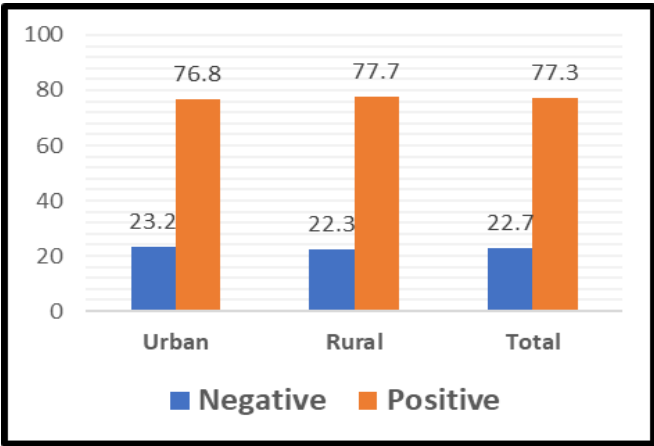


Figure 2: Effects of cashless policy on socioeconomic activities of households (%)

2.6 Conclusion

The cashless policy holds several positive effects on the socioeconomic activities of households in Delta State, vis-à-vis Nigeria. This is particularly important for rural areas as reducing the urban-rural gaps in financial inclusion will depend on the extent to which these facilities and services are readily available to them.

3.1 Recommendations

- ✓ The state government should provide a thriving environment for the socioeconomic activities of households as this will help to improve their capacity to access internet services which is key for digital financial transactions in line with a cashless policy. This is especially important for poor households whose economic capacity will determine their ability to purchase smartphones and subscribe for data that are prerequisites for digital financial transactions.
- ✓ The telecommunication service providers should address the bottlenecks such as internet connectivity and cost of mobile data that pose limitations to the successful implementation of a cashless policy to reduce

the gap in financial inclusion between urban and rural households in Delta State.

- ✓ The banking sector should provide ATM points in rural areas to enhance the financial inclusion of rural households and improve their socioeconomic activities.
- ✓ Financial technology which has transformed how people, save, borrow, invest, move, pay, and protect money holds a high potential for enhancing the financial inclusion of rural households since several types of financial transactions can be done with basic phones. Financial institutions should take advantage of the vast market of rural areas to increase their reach and impact as this will increase their business benefits and assist in bridging the financial inclusion gaps between urban and rural areas.

Further Reading

Central Bank of Nigeria (CBN). (2020). National Financial Inclusion Strategy Implementation. 2020 Annual Report. <https://www.cbn.gov.ng/Documents/finannualreports.asp>

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**This Policy Brief draws on a NISER Study on Empowering Every Household through Digital
Financial Inclusion**