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Monetary Policy and Inclusive Growth in Nigeria: Theoretical Issues, Challenges and Prospects

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Abstract
This paper offers a theoretical perspective on how monetary policy can enhance inclusive growth in the economy through the Central Bank of Nigeria (CBN). The ultimate objective of monetary policy is to promote sound economic performance and high living standards of the citizens. This makes monetary policy a key element of macroeconomic management and its effectiveness is crucial to the overall economic performance of Nigeria. The paper constructed a theoretical model for inclusive growth in Nigeria and provides the drivers of inclusive growth in the economy. It also identified and discussed major challenges to the conduct and implementation of monetary policy in Nigeria which undermine the effectiveness of monetary policy to include non-monetized Nigerian rural sector, underdeveloped money and capital markets, and large quantity of money outside the banking system. Others include poor data quality, proliferation of illegal financial houses, and poor banking habits in the economy. The paper however notes that monetary policy when developed and conducted efficiently has the capacity to influence the real sectors of the economy and positively influences all the key drivers of inclusive growth in Nigeria. To make monetary policy more effective and responsive to inclusive growth in Nigeria, the study, recommended that the government must play a central role in coordination between banks and others to expand efforts to support key industries; it should also pursue further improvements in areas such as health care, education, infrastructure and access to capital; embark on greater harmonization of monetary and fiscal policy so as to have internal consistency necessary for all the policies to achieve the desired impact on the real productive sectors; strengthen its machinery for providing timely and reliable data for efficient planning in the system; and monetary policy should be complemented by growth-oriented and job creating fiscal, industrial and labour policies. The paper submitted however that although monetary policy can contribute to inclusive and sustainable growth when developed and employed efficiently, there is the need to recognize the limitations of monetary policy and hence acknowledge that other macroeconomic policies, policy makers and stakeholders also have an important and significant role to play in achieving both inclusive and sustainable growth in Nigeria.
Keywords: Monetary policy, Economic Growth, Development
JEL Classification: E50, F43, O10

1. Introduction

One of the challenges that is facing any modern economy is the achievement and sustenance of economic growth and development with the ultimate objective of enhancing the welfare of its citizens. This has prompted development economics to propose a paradigm shift from Pro-Poor Growth to inclusive growth. Migap, Okwanya and Ojeka (2015) posited that growth is good and sustained high growth is better, but sustained high growth with inclusiveness is the best of all. Nigeria has long been recognized as the largest African nation, due to its estimated population of 174 million inhabitants (2012estimate), but it is only recently, that it has been acknowledged as the continent's largest economy (Mckinsey Global Institute-MGI, 2014). However, despite strong GDP growth (productivity and per capita GDP) between 1999 and 2010, poverty did not decline materially (Migap, Okwanya and Ojeka, 2015). While the World Bank (2013) ranked Nigeria as one of the fastest growing economies of the world with GDP growth rates of 7.8%(2010), 7.4%(2011), 7.5%(2012) and 7.6%(2013), the UNDP (2013), ranked Nigeria among the countries with Low Human Development Index (HDI) of 0.471, placing the country at the 153rd position out of a total of 186 countries sampled. Growth in Nigeria in the last decade therefore has not been adequate to be accompanied by reduction in widespread poverty and unemployment. This clearly shows that the present economic growth is not inclusive enough and needs to be addressed.

Therefore, the inability of economic policies to guarantee balanced and inclusive growth to ensure high employment and equal opportunities which will enhance reduction of widespread poverty in the economy forms the research problem to be investigated in this paper. One of these macroeconomic policy options for addressing the problems of inadequate growth and widespread poverty in Nigeria is the monetary policy. It is believed that monetary policy can be conducted efficiently in an economy to achieve inclusive growth that will reduce unemployment and widespread poverty to guarantee equal opportunities in the economy.

Monetary policy is one of the available tools for macroeconomic management. It aims at controlling the growth of monetary aggregates and assists other policy tools to achieve macroeconomic goals of low inflation, balance of payments viability and sustainable output growth. It is generally believed that monetary policy works in concert with other policy tools to enhance the achievement of overall macroeconomic objectives. Therefore, monetary policy is central to macroeconomic management and is indeed supportive of other policy tools, especially fiscal policy in enhancing economic growth and development of both developed and developing economies.

The ultimate objective of monetary policy is to promote sound economic performance and high living standards of the citizens. This gives the citizens confidence in the currency as a store of value, unit of account and medium of exchange, so that they can make sound economic and financial decisions. Monetary policy impacts on the wellbeing of individuals depending on the policy measures put in place. For instance, monetary policy affects welfare by influencing the cost and availability of credit in the economy. An expansionary monetary policy reduces the cost of credit and thus, boosts investments. This would in turn increase output and employment and wellbeing (CBN, 2011). The reverse also holds when the monetary authorities seek to pursue a restrictive monetary policy. The mandate of the CBN is to achieve and maintain price stability in the interest of balanced and sustainable economic growth. Price stability reduces uncertainty in the economy and provides a favourable environment for growth and cumulative employment creation over the long-term. This makes monetary policy a key element of macroeconomic management and its effectiveness is crucial to the overall economic performance of Nigeria.

This paper therefore seeks to examine theoretically, the possibilities of achieving inclusive growth in Nigeria through the conduct of monetary policy among other economic policies. The paper also in addition to tracing the evolution of the concept of inclusive growth and why growth must be inclusive, constructs a theoretical model for monetary policy and inclusive growth in Nigeria and provides the drivers of inclusive growth in the economy.

To achieve these objectives, the paper has been structured into six sections with the introduction as section one. Section two is the literature review. Section three discuses conceptual issues in monetary policy and inclusive growth. Section four presents and discusses the theoretical framework and the key drivers of inclusive growth. While section five surveyed the challenges and prospects of monetary policy in achieving inclusive growth in Nigeria, section six is the concluding remark of the paper.

2. Literature Review

2.1 Evolution and Conceptual definition of Inclusive Growth

The policy debate on the economic relationship between growth, inequality and poverty can be traced to the Kuznet's (1955) and Solow's (1956) models. This is followed by disputes between Keynesian state intervention and the free market policies advocated by the monetarists. The rise of monetarists and the neo-classical economists in the mid1970s and in the late 1980s shifted development theory towards the trickle down proposition, which emanated from the application of policy debate and deliberations culminated with Washington Consensus –WC (Vallala, Madala and Utpal, 2014).

The failure of Washington Consensus in the early 1990s and the pressure of institutional economies forced the International Monetary Fund (IMF) and World Bank to address the problem of inequality and poverty through Pro-Poor Growth (PPG). This shift in the global policy debate is evident from the international commitment to the Millennium Development Goals and the subsequent shift to inclusive economic growth (UN, 2000).

The usage of the term "inclusive" in the characterization of growth episodes can be traced back at least to the turn of the century when Kakwani and Pernia (2000) employed it to highlight the contents of pro-poor growth as that one that enables the poor to actively participate in it and benefit from the growth process. Inclusive growth as a strategy of economic development received attention owing to a rising concern that the benefits of economic growth have not been equitably shared. Growth is inclusive when it creates economic opportunities along with ensuring equal access to them.

There is no universal definition of inclusive growth, but the term inclusive growth is often used interchangeably with a suite of other terms, including 'broad-based growth', 'shared growth', and 'pro-poor growth'. Inclusive growth basically means making sure everyone is included in growth, regardless of their economic class, gender, sex, disability and religion (Ianchovichina and Lundstrom, 2009). According to World Bank (2005), the growth is said to be inclusive when the growth is to be sustainable in long run and it should be broad-based across the sectors and inclusive of larger part of a country's labour force. Emphasis on inclusiveness – especially on equality of opportunity in terms of access to markets, resources, and unbiased regulatory environment – is an essential ingredient of successful growth. In line with the World Bank definition, Groepe (2012) referred to inclusive growth as long-term sustained economic growth that is broad-based across sectors and inclusive of a large part of a country's labour force, thereby reducing unemployment significantly. Policies that encourage inclusive growth tend to emphasize removing constraints to growth, creating opportunity, and creating a level playing field for investment.

Ianchochina and Lundstrom (2010) defined inclusive growth as that growth which can reduce poverty and allow people to contribute to economic growth and benefit from the growth process. They pointed out that rapid pace of growth is unquestionably necessary for substantial poverty reduction but for growth to be sustainable in the long run should be broad based across the sectors and inclusive of the large part of the country's labour force. Growth Report (2010) notes that inclusiveness is a concept that encompass equity, equality of opportunity and protection in market and employment transitions. Growth is inclusive if it supports high levels of employment and rising wages (Khan, 2011). Swarmy (2010) opines that if economic growth is not shared throughout society, then development has failed. Inclusive growth in the economy can only be achieved when all the weaker sectors of the society, including agriculture and small scale industries, are nurtured and brought on par with other sections of the society in terms of economic development. This necessitated the need for broad based inclusive growth. Inclusive growth is broad- based in which the poor not only benefits there from but also participate in the growth process. It does not only create new economic opportunities but also ensures the equal access to them by all, particularly the poor.

According to UNDP (2013), inclusive Growth is both an outcome and a process. On one hand it ensures that everyone can participate in the growth process, both in terms of decision making for organizing the growth progression as well as in participating in the growth itself. On the other hand it makes sure that everyone shares equitably the benefits of growth.

According to Ali (2007), the key elements in inclusive growth are employment and productivity, development in human capabilities and social safety nets and the targeted intervention. Goyal (2013) defined inclusiveness of economic growth as gross domestic product growth that leads to significant poverty reduction. McKinley (2010) posited that inclusive growth entails achieving sustainable growth that will create and expand economic opportunities and ensuring broader access to these opportunities so that members of society can participate in and benefit from growth. Raumiyar and Kanbur (2010) pointed out that while there is no agreed and common definition of inclusive growth or inclusive development, the term is understood to refer to "growth coupled with equal opportunities and consisting of economic, social and institutional dimensions.

Asian Development Bank (ADB, 2011) defined inclusive growth as economic growth that results in a wider access to sustainable socio economic opportunities for a broader number of people, regions or countries while protecting the vulnerable, all being done in an environment of fairness, equal justice and political plurality. Goyal (2012) argued that inclusive growth has become the government's objective, but debates have refined the meaning of the term, as creating conditions for the masses to contribute to and participate in growth. This requires pro-poor growth, access to quality public services and jobs. Examples of government initiatives that can contribute to active inclusion are improving infrastructure, financial inclusion, health, education, technology the poor use and public service delivery.

2.2 Monetary Policy and Economic Growth

Monetary policy, as a macroeconomic stabilization policy, is important in the process of attaining macroeconomic goals economic growth, price and exchange rate stability, low rate of unemployment and favourable balance of payments. It involves measures designed to regulate and control the volume, cost, availability and direction of money and credit in an economy to achieve some specified macroeconomic policy objectives. Monetary policy is therefore a key element of macroeconomic management and its effectiveness is crucial in ensuring sustainable macroeconomic stability, output growth and the overall performance of the economy (Goshit, 2014). Government could affect output and employment through monetary and fiscal policies. The primary goal of monetary policy is the maintenance of domestic price and exchange rate stability as critical condition for the achievement of sustainable economic growth and external viability. Essentially, a stable macroeconomic environment will catalyze output and employment growth such that the standard of living of the citizenry would improve. The question of whether an expansionary monetary policy or fiscal policy will help to raise output starts from the basic Keynesian model. In general, either an increase in government expenditure or expansionary monetary policy, leading to an increase in investment via lower interest rate, will lead to an increase in output. One view of the transmission mechanism is that monetary policy actions affect the economy primarily through their impact on the money supply (Goshit, 2014). Hence monetary policy actions influence the economy through both availability of credit and its price. The first view implies that monetary policy actions affects the economy primarily by determining aggregate spending which, in turn, directly affects the production of goods and services and, hence, the unemployment and inflation rates. The second view elaborates these relationships further by postulating that monetary policy actions influence a wide range of financial and non-financial variables which, in turn, affect the spending and decisions of economic agents. In this context, the effects of monetary policy actions are reflected first on financial variables, such as the discount rate and monetary base, which are closely related to reserve positions of banks and are controllable with some precision by the central bank (Goshit, 2014).

The nature of the relationship between monetary policy and output growth is of important policy consideration because rapid growth is crucial for poverty reduction. One of the most popular characterizations of the nature of this relationship is the quantity theory of money, which links money stock to the value of output that finances it (Masha, 2002). Kalulumia and Yourogou (1997) investigated the relationship between money and output and have found that there is a long-run relationship between money, prices, output and real output in Nigeria. Jinghan (2004) posited that a direct and simple relationship between monetary policy and output growth is that expansionary monetary policy enhances and increases output in an economy, all things being equal. The expansionary monetary policy enhances output through the employment of more resources in the economy. Monetary policy promotes sustained economic growth in two ways. Firstly, monetary authority might be entrusted with the responsibility of maintaining equilibrium between the total money demand and the country's total productive capacity. The fulfilment of this important responsibility calls for a flexible monetary policy aiming to restrict bank credit when the total demand threatens to raise prices and create conditions of unsustainable boom to expand credit when a deficiency of total demand causes decline in the prices and employment in the economy (Nzekwu, 2006).

The choice of the direction of monetary policy is contingent on prevailing economic and monetary policy conditions. Consequently, during a period of economic boom, the authorities could decide on non-accommodating monetary policy, by reducing the growth in money supply. The converse takes place when the authorities want to boost economic activities. That is, the monetary authority can increase the supply of money to the economy when it discovers that money is needed to grease the economic machinery for growth and development. Economic agents are thus, encouraged to borrow more money for investments or personal consumption. This will increase the demand and supply of goods and services which will in turn make producers to employ more people or machines to produce more goods and services to meet the high levels of aggregate demand and eventually, higher levels of employment would be achieved in the economy (Goshit, 2014). Therefore role of monetary policy in ensuring sustainable macroeconomic stability, output growth, high level of employment and favourable balance of payments position is critical to economic growth and development of a country.

3. Conceptual Issues in Monetary Policy and Inclusive Growth

3.1 Why Must Growth be Inclusive?

The clamour for inclusive growth from both developed and developing economies is basically for the wellbeing of nations but specifically, inclusive growth is important for the following very salient reasons:

- For ethical considerations of equity, fairness and justice, growth must be shared and should be inclusive across different segments of populations and regions. Economic and other shocks hurt the poor and the vulnerable most, and growth that results in high disparity is unacceptable. This makes the growth that is inclusive inevitable.
- Growth with persisting inequalities within a country may endanger social peace, force the poor and the unemployed people into criminal activities, makes women more vulnerable to prostitution, force children into undesirable labour, and further weaken other disadvantaged and vulnerable sections of population – resulting in a waste of vast human capital that would otherwise be used productively in creating economic outputs for sustainable growth.
- Continued inequalities in outcomes and access to opportunities in a country may result in civil unrest and violent reaction from people who are continually deprived, derailing a sustainable growth process (ADB, 2011). This may create political unrest and disrupt the social fabric and national integration, undermining the potential for long-term, sustained growth.

3.2 The Policy Pillars of Inclusive Growth

The framework of inclusive growth identifies policy ingredients of inclusive growth to include economic growth and employment opportunities, social inclusion, social protection, as well as good governance and institutions, on which it is based. These policy pillars are discussed below.

- **High, efficient and sustainable growth to create productive jobs and economic opportunities:** High, efficient and sustained economic growth creates sufficient levels of productive jobs and expands economic opportunities for all (ADB, 2011). For inclusive growth in Nigeria, it is imperative that economic growth also creates productive employment opportunities to absorb a large surplus labour force in decent jobs. High and sustained growth is a necessary (though not sufficient condition for inclusive growth). It creates resources for governments to invest in better access to education and health services, infrastructure, social protection and safety nets for the poor and the vulnerable.
- **Social inclusion to ensure equal access to economic opportunity:** Social inclusion ensures that all

sections of the population, including those disadvantaged due to their individual circumstances, have equal opportunities. To ensure equal access to opportunities, human capacities should be enhanced to bridge the gaps that arise due to circumstances beyond the control of individuals, especially those from marginalized and disadvantaged section of the society, including women. Thus, providing access to all, and infrastructure to facilitate access to these services are essential ingredient of an inclusive growth strategy.

- **Social safety nets**: Social safety nets are required to protect the chronically poor and to mitigate the risks and vulnerabilities associated with transitory livelihood shocks, caused for example by ill health or economic crisis. Social protection is particularly important to cater for the needs of those who are chronically poor, and who cannot participate in and benefit from the opportunities created by growth due to circumstances beyond their control (ABD, 2011). Therefore, policies on social safety nets will not only protect those who have to face shocks such as loss of job or ill health, but also protect the very poor from extreme deprivation.
- The three policy pillars of inclusive growth – expansion of economic opportunities, social inclusion, to promote equal access to opportunities, and social safety nets – supported by good governance and strong institutions, can promote inclusive growth where all members of the society can benefit from and contribute to the growth process.

3.3 Monetary Policy Transmission Channels

Monetary authorities around the world are pragmatically adopting monetary policy to achieve and maintain low inflation and robust economic growth while promoting financial stability. Chang and Jaffar (2014) noted that monetary policy normally affects the real economy through numerous transmission channels with long and variable lags. Changes in policy rate by central banks affects aggregate demand, growth and inflation through various transmission channels and induce changes in employment as a result. In general, it is well known that monetary policy can affect the real economy through at least four main channels of transmission mechanism in modern developing economies. Mishkin (1995); Ebson and Ikhide (2002); Ramon (2006); Mohan (2008) and Chang and Jaffar (2014) have identified these monetary policy transmission channels to include; interest rates channel, asset prices channel, exchange rate channel and credit channel.

Interest rates channel: The interest rate channel works through a reduction in investment due to an increase in the real cost of borrowing or through an increase in investment due to reduction in the real cost of borrowing. An expansionary monetary policy for instance is expected to lead to a lowering of the cost of loanable funds, which in turn raises investment and consumption demand and should eventually be reflected in aggregate output and prices (Mohan, 2008).

Asset Prices Channel: Ebson and Ikhide (2002) noted that changes in the policy rate can influence the real economy through changes of asset prices of stocks, bonds and real estate. When interest rate rises, stock price (market value of firms) declines and (market value of firms/replacement cost of physical asset of firms) drops as well following which, investment will decrease causing the aggregate demand to also decrease. In addition, the increase in interest rate causes the present value of future returns on stocks, bonds and real estate to decrease. Subsequently, the decline in asset prices (wealth) reduces household consumption and aggregate demand and thus, employment.

Exchange Rate Channel: In many developing countries particularly those with only rudimentary markets for bonds, equities and real estate, the exchange rate is probably the most important asset price affected by monetary policy (Mohan, 2008). When interest rates increase, the yield rate of domestic financial assets denominated in domestic currency becomes comparatively higher than those of foreign assets. This results in rational investors selling foreign currency while buying domestic currency, leading to an appreciation of the domestic currency. Appreciation in the domestic currency would simultaneously increase the export prices while reducing import prices. Hence, imports will increase on one hand while exports and aggregate demand will decline on the other hand (Chang and Jaffar, 2014).

Credit Channel: According to Ramon (2006), when central banks raise the policy rate, credit availability of banks shrinks and loans extended to firms and households decline. Investment and consumption will weaken accordingly. This credit channel can be further divided into the balance sheet channel and the bank lending channel. When interest rates rise, future profits of firms decrease and the real value of debt increases, worsening the balance sheet of firms. The increased risk premium implies that firms will face difficulties in financing their investment by means of external funds. Via the bank lending channel, when interest rates rise, banks may have doubts about ability of borrowers to repay loans due to asymmetric information. Accordingly, loan screening becomes tighter (Chang and Jaffar, 2014). All these developments imply a reduction of bank loans, investment and consumption.

4. Theoretical Framework and Key Drivers of Inclusive Growth

The inclusive growth theoretical model encompasses the whole macro-economic management which attempt to reduce unemployment, and poverty. However, it ensures economic growth, human development and gender equity. Therefore it is important to enhance the capacity building of the people which is indeed the main objective of inclusive economic growth unlike the pro-poor growth which ensured only the transfer of benefits to the poor through subsidies and other means. The typical model for monetary policy and inclusive growth in the Nigerian economy can be constructed as shown in figure 1 below.

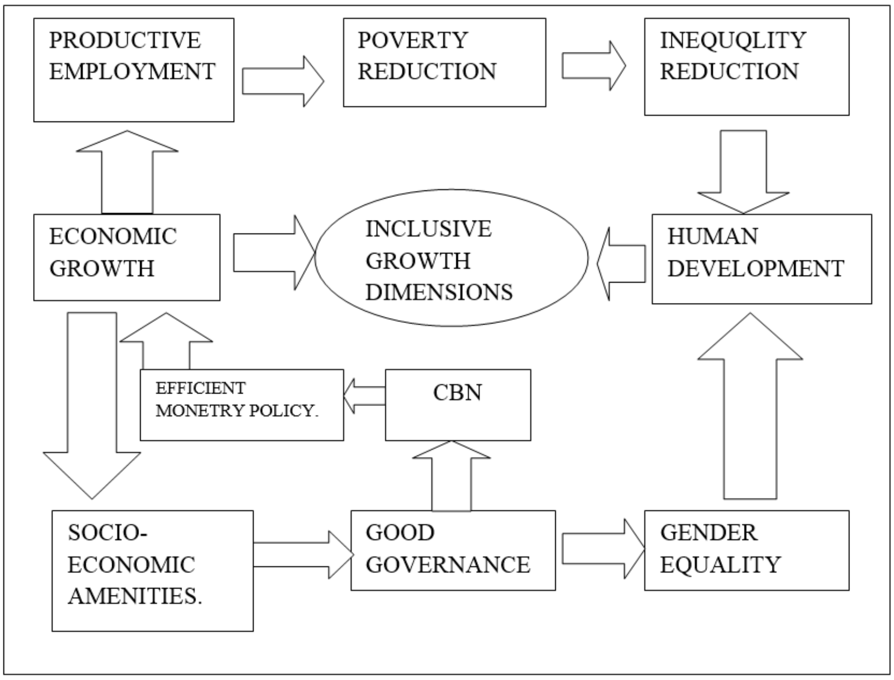

Figure 1: Monetary Policy and Inclusive Growth Model in Nigeria.

The theoretical model exhibits the key drivers of inclusive growth in Nigeria. First and foremost, faster and sustainable economic growth is pre requisite for inclusive growth. Perhaps this best explains why the emerging economies like Brazil, India etc. focus more on the accelerated economic growth in the last couple of decades. Economic growth should provide basic socio economic amenities in the form of food for all, health for all, education for all, electricity for all, access to all weather-good roads and safe drinking water. The model shows that achieving administrative efficiency by government should guarantee gender equity so that the trickle-down effect of the growth will actually materialise. Good governance and gender equity will enhance the human capabilities. Good governance is further expected to influence the activities of the Central Bank of Nigeria (CBN) positively (good laws, CBN autonomy, fiscal discipline, etc), which the CBN in turn will conduct monetary policy efficiently and this will lead to economic growth in the economy.

Followed by economic growth, productive employment is the key driver of inclusive economic growth since jobless growth is as dangerous as stagnation (Vellala, Madala and Utpal, 2014). Productive employment can increase the labour productivity. Employment outcome is an important outcome of inclusiveness. Naturally employment should be capable of poverty reduction. The drivers to inclusive growth exhibited in the theoretical framework can be explained as follows:

Economic Growth: Sustainable and faster economic growth is pre requisite for achieving the goal of inclusive growth. ADB (2011) identified inclusive growth as its first development agenda with the second and third being environmentally sustainable growth and regional integration. The bank stressed two key determinants of inclusive growth to include achieving sustainable growth that will create and expand economic opportunities and ensuring broader access to these opportunities so that members of society can participate in and benefit from growth. The second determinant for inclusive growth is identified as expanding human capacities such as investing in education, health and basic social service. Social safety nets are also emphasized to protect the most vulnerable and deprived who have been excluded in the growth process.

However in Nigeria, in spite of several efforts by the government to rapidly transform the nation's economy through various reforms and development paradigms, results and achievements have been limited (Chete and Falokun, 2010). For instance, distortions in the nation's economy over the past four decades still lingers and the economy remains dependent on monoproduct crude oil and natural gas exports and import dependent while industrial value added is low with adverse portents for economic growth, employment generation and poverty reduction. Table 1 shows the structure and growth of GDP in Nigeria from 1961 to 2009.

Table 1: Composition of Real GDP by Sectoral Group, 1961 to 2009 (%)

Sectoral Group	1961	1966	1970	1977	1981	1987	1990	2003	2007	2009
Primary Sector	70.54	69.68	66.99	62.10	58.40	60.25	55.68	68.36	61.92	58.44
Agriculture	68.88	66.95	49.45	30.10	28.37	29.24	22.99	34.62	42.02	41.69
Mining & Quarrying	1.66	2.73	17.54	32.00	30.03	31.02	32.69	33.74	19.90	16.75
Secondary Sector	9.67	12.55	16.15	13.05	12.14	12.60	9.04	10.51	9.24	9.05
Manufacturing	4.73	7.00	7.66	6.30	5.60	5.95	5.12	4.32	4.03	3.72
Building & Construction	3.30	4.95	7.77	2.90	2.83	2.87	1.78	2.70	1.72	2.01
Utilities	1.63	0.60	0.60	3.85	3.71	3.78	2.14	3.49	3.49	3.32
Tertiary Sector	19.79	17.77	16.86	24.85	29.46	27.16	35.28	21.13	28.84	32.51
Wholesale & Retail	19.36	15.40	13.56	14.21	14.17	14.19	8.68	12.92	16.16	18.14
Other service Activities	0.43	2.37	3.29	14.64	15.29	14.97	26.60	8.21	12.68	14.37
Total (GDP)	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Diversification Index	1.34	1.38	1.37	1.33	1.34	1.35	1.35	1.36	1.36	1.36

Source: Nation Bureau of Statistics (NBS), Abuja, and IMF: International Financial Statistics (IFS) ; In: NISER, 2010.

Table 1 shows that for close to four decades, the primary and secondary sectors contributed more than 50.0 per cent and less than 14.0 of real GDP respectively. In terms of efforts to diversify the productive base of the economy, diversification index hovered 1.38 in 1961 and 1.36 in 2009. This is corroborated by Table 1, which shows that the contributions of agricultural output to GDP exceeds 40.0 per cent while the share of manufacturing output to GDP is less than 5.00 in 2007.

Productive Employment: Vellala, Madala and Utpat (2014) argued that for growth to be inclusive needs to be pro-employment. The concept of productive employment as a fundamental element of inclusive growth was stressed by Khan (2011). The concern with the growth and distribution of employment growth was also expressed by Ianchovichina and Lundstrom (2010). At the core of this global challenge is a need to enhance populations' and particularly poor and marginalized groups' access to productive opportunities, to find decent jobs, or to maintain and promote their small businesses.

However, the growth in Nigeria has not been translated into productive employment. The rate of unemployment in Nigeria is alarming despite government efforts to reduce it. CBN (2008) revealed that the increase in the unemployment rate was largely attributed to the increased number of school graduates with no matching job opportunities, freeze in employment in many public and private sector institutions and continued job losses in the manufacturing and oil sectors. Table 2 shows the total population, labour force, the unemployed and unemployment rates in Nigeria for the period 2004- 2008.

Table 2: labour statistics in Nigeria; 2004 to 2008

Year	2004	2005	2006	2007	2008
Total Population	134,131,224	138,468,013	140,003,542	144,483,655	149,107,132
Total Labour Force	55,538,881	56,170,672	58,933,891	61,249,485	62,946,096
Total Employment	48,124,440	49,486,362	50,886,826	52,326,923	53,807,775
Total Unemployment	7,414,441	6,684,310	8,047,065	8,922,562	9,204,515
Unemployment Rate (%)	13.4	11.9	14.6	10.9	12.8

Source: Central Bank of Nigeria (2008). Annual Report and Financial Statements. Pp.104

Table 2 indicates that unemployment rate has been increasing from 2004 to 2008 with a fall from 14.6 percent in 2006 to 10.9 percent in 2007 respectively. However, the number of the unemployed increased progressively in 2006 and 2008 from 8,047,065 to 9,204,515 respectively.

Besides, available information on the structure of employment in Nigeria over the past decades shows a gender disparity. Table 3 shows percentage distribution of employed persons by sex from 1977 to 2001 in Nigeria.

Table 3: Percentage Distribution of Employed Persons by Sex (1977to 2001)

S/N	Year	Female as percent of total employment	Male as a per cent of total employment
1	1977	13.2	86.8
2	1981	13.3	86.7
3	1986	18.46	81.54
4	1991	16.04	83.96
5	2001	28.87	71.13

Source: NBM Nigeria's Manpower Stock and Requirements Studies (1977-2001): In NES 2010

Table 3 indicates that from the 1970s until the beginning of the 21st century, female employment as a percentage of total employment has risen from 13 percent to about 30 percent, currently compared to about 70 percent for male. Therefore, given the fact that the increase in share of female in total workforce would increase both national and female productivity and lead to greater gender equity, there is the need for vigorous implementation of the national Gender policy.

Poverty Reduction: Growth to be inclusive needs to be pro-poor. However, like employment crises, abject poverty has grown almost exponentially in Nigeria in the last four decades despite government's effort to reduce it. Table 4 shows the profile of growth of poverty in Nigeria.

Table 4: Poverty Profile in Nigeria (1960 to 2010)

Year	Poverty Rates (Benchmark) (%)	Population (in millions)	Population in Absolute Poverty (in millions)
1960	15% (Domestic Poverty line)	55	8.25
1990 – 2005	70.8%	141.4	100.11
	($1 per day)		
	92.4%	141.4	130.65
	$2 per day		
2010	70.8%	150.0* the profile	106.2
	($1 a day		
	92.4% ($2 a day benchmark)	150.0	138.6*
2005 – 2010	54.4% (Domestic Poverty Line	150*	81.6*

Source: NBS Survey 2006 and Human development Report 2007/2008 * Projected figures

The highlights of the poverty situation in Nigeria as depicted in table 4 shows that in 1960, 15 percent of Nigerians or about 8 million people lived in abject poverty but this has grown to about 82 million Nigerians in 2010. Besides, using the international measure of $1 a day, 70.8 per cent or 106 million Nigerians lived under $1 a day. This number increases to 139 million if the $2 a day benchmark is used. It is therefore significant to note that the above poverty matrix makes Nigeria, a country with the highest concentration of poverty in the African continent between 1990 and 2010 no matter what poverty benchmark one uses (Umo and Ukpong, 2010).

Inequality Reduction: Growth to be inclusive needs to ensure income equality. Inclusive growth is that which is accompanied by declining income inequality (Raumiyar and Kanbur, 2010). Measures are needed to track the adverse distributional changes that affect not only the extremely and moderately poor, but also the disadvantaged non-poor (McKinley, 2010). Countries that have successfully reduced poverty but have witnessed increasing income inequality will need to design policies to expand job opportunities and access to social services and infrastructure for regions and populations that are left behind to achieve the goal of inclusive growth.

Human Development: Growth to be inclusive needs to enhance human capabilities. The supply side of the inclusive growth dynamics needs to be addressed i.e. whether the working population possesses the human capabilities necessary to be productively employed to take advantage of available economic opportunities (McKinley, 2010). Access to health and education and other vital infrastructures such as safe drinking water and adequate sanitation decides the quality of human capital. Within the analytical framework of inclusive growth, health and education can also be utilized as an indicator of the degree of equality of opportunity that a country's population enjoys (Vellala, Madala and Utpal, 2014). This implies that all members of a society should be provided with the means to form the basic human capabilities that are an essential foundation for social inclusion.

In Nigeria, there is still a lot to be done in terms of the development of human resources for health to meet the future needs of our health system (Omigbodun, 2010). Table 2 shows some demographic and health indicators for Nigeria.

Table 5: Some Demographic and Health Indicators for Nigeria

Indicator	Estimate/Finding	
	1960	2010
Total Population	48 million	154.7 million
Land Area (Square Kilometres)	923, 678	923,768
Average population growth rate	3.1%	2.3%
Population of Urban Dwellers	22%	49%
Literacy Rate Age 15 &above (M/F)-2009	N/A	80.1%/60.1%
Access to improved Drinking Water Sources	38%	47%
Public Health expenditure as Proportion of GDP	N/A	1%
Life Expectancy in Years (M/F)	38.8/39.7	47.6/48.7
Total Fertility Rate (per woman)	7.2	5.17
Crude Birth Rate per 1000 Population	56	42
Births per 1000 Women Age 15-49	178	127
Total No. Of Births (millions)	2.1	6.03
Premature Births	7%	6%
Proportion of Births with Skilled Attendants	18%	35%
Crude Death Rate per 1000population	26	16
Maternal Mortality Ratio per 100,000 Live Births	1500	1100
Infant Mortality Ratio per 1000 Live Births	190	108
Under-5 Mortality per 1000 Live Births (M/F)	325/309	190/184
Contraceptive prevalence (Any Method/Modern Method	N/A	15%/9%
HIV Prevalence (Age 15-49)	-	3.1%

Source: Adopted from NISER, Ibadan, (2010). Pp.504

Omigbodun (2010) posited that maternal mortality ratio has decline since independence but more women still die from problems associated with pregnancy and childbirth in Nigeria than in almost all other countries in the world. The infant mortality rates (which assess the rates of death before the first birthday) in Nigeria are more than ten times the equivalent rates in northern European countries (Omigbodun, 2010). Contraceptives prevalence has been steadily increasing since the 1970s but it is still less than 20 percent and the rates vary widely between different geographical parts of the nation.

There has also been facility development in the health sector and Table 3 shows the changes in the number of facilities in the last three decades from 1979 to 2008.

Table 6: Changes in Number of Health Facilities in Nigeria from 1979 to 2008

Type of Facility	1979	2008
Teaching Hospital	6	39
General Hospital	562	1080
Armed Forces Hospital	11	19
Prison Hospital	3	5
Mission Hospital	247	325
Private Hospital/Clinic	2740	7080
Comprehensive Health Centre	609	800
Maternity Centre	1240	2516

Source: Nigerian Institute of Social and Economic Research (NISER), 2010

The changes in numbers of health facilities did not necessarily translate to better care but it meant the number of hospital beds kept increasing in line with population increase. However, there is still some overcrowding, particularly in urban health establishments in Nigeria.

Gender Equity: Growth to be inclusive needs to ensure gender equity. Achieving greater gender equity is an important aspect of fostering greater inclusiveness of growth including enhancing human capabilities (McKinley, 2010). Regardless of gender, ethnicity and religion, people from all social sectors should be able to contribute to and benefit from economic development.

Basic Socio-Economic Infrastructure: Growth to be inclusive needs to develop economic infrastructures so that all sections of the society will have access to safe drinking water, electricity, housing, toilet, transport and financial inclusion. Inclusive growth results in a wider access to sustainable socio economic opportunities for a broader number of people, regions or countries while protecting the vulnerable, all being done in an environment of fairness, equal justice and political plurality (ADB, 2011). Financial development creates enabling conditions for growth when access to safe, easy and affordable credits is recognized as pre-condition for growth.

In Nigeria, these basic socio-economic infrastructures are grossly inadequate in supply. Majority of

Nigerians (especially rural dwellers) still face the serious challenge of having easy access to safe drinking water, near absence of electricity, bad roads and poor housing facilities and sanitation. Although there have been improvements in urban roads, electricity, mobile phones, including financial institutions, but there are large disparities across the country. In the aspect of financial inclusion, Table 2 gives a cross-country analysis between Nigeria and some selected emerging (Upper middle income) economies for comparative analysis to determine the extent of financial inclusion/exclusion, using various financial inclusion indicators as a percentage of account holders at formal financial institution.

Table 7: indices of Financial inclusion at a financial institution in 2014: Upper income Economies (%)

Characteristics	Nigeria	Brazil	Malaysia	China	South Africa	Colombia	Costa Rica	Thailand	Bench-mark
GNI per capita ($)	2,710	11,690	10,430	6,560	7,410	7,590	9,550	5,340	
All adults (%) Age 15+)	44.0	68.1	80.7	78.9	70.3	39.0	64.6	78.1	70.5
Women (% Adults)	43	64.8	78.1	76.4	70.4	34.0	60.2	75.4	67.3
40% of poorest Adults	34.4	58.5	75.6	72.0	57.8	24.4	61.3	72.0	62.7
Mobile Account (% age 15 +)	2.3	0.9	2.8		14.4	2.2	NA	1.3	0.7
Use of ATM (%with an Account)	70.5	75.4	72.1	51.2	81.8	80.8	83.2	62.3	55.7
Used account to receive wages in past year	8.8	22.9	30.8	17.7	26.8	4.8	18.7	8.3	18.1
Used a debit card in past year	14.1	41.7	18.6	17.3	40.8	17.5	35.3	7.9	19.9
Sent remittances in past year	39.3	5.8	27.7	15.5	41.5	19.8	16.4	36.7	15.4
Saved at a financial institution in past year	27.1	12.3	33.8	41.2	32.7	12.3	24.2	40.6	32.2
Borrowed from a financial institution in past year	5.3	11.9	19.5	9.6	12.1	15.6	12.7	15.4	10.4

Source: Global Financial Inclusion Database, 2014, In: Migap, Okwanya & Ojeka, (2015).

Table 7 shows a wide difference and gap in the financial inclusion index that Nigeria has to cross before joining the exclusive rank of emerging economies. In terms of per capita growth, Nigeria is far behind all the selected countries and needs to intensify its efforts to achieve high rates.

Governance: Governance deficit is considered as a crucial hindrance towards achieving inclusive growth (McKinley, 2010). Therefore to be inclusive, governance standards have to be lifted and huge elements of accountability and transparency in governance are indispensable. To implement inclusive policies successfully, government effectiveness will have to be strengthened. Inclusive growth focuses on expanding the opportunities for all while targeting social protection and interventions at chronically poor (Ali, 2007). Therefore social protection through social safety nets should be incorporated as an additional dimension of inclusive growth strategic framework (McKinley, 2010).

The foregone discussion has clearly shown that Nigeria is lacking behind seriously in terms of meeting the desired level of the drivers of inclusive growth. This therefore calls for deliberate and concerted government efforts to improve on these indicators to achieve inclusive growth in Nigeria.

5. Challenges and Prospects of Monetary Policy in Achieving Inclusive Growth in Nigeria

5.1 Challenges

A number of factors have been identified as constituting clogs in the efficacy of monetary policy in Nigeria. These challenges constrain the monetary policy in influencing the real sector of the economy and therefore constitute a serious hindrance to economic growth. These challenges are identified and discussed below:

Non-monetized rural sector: There is a large non-monetized sector which hinders the success of monetary policy in the less developed countries like Nigeria. The existence of large non-monetized sector of the economy which holds significant amount of money outside the banking system limits the effectiveness of monetary policy implementation in Nigeria (Anyanwu, 1993). Most people live in rural areas where there are no banks. Consequently monetary policy fails to influence this kind of people.

Poor infrastructural facilities: In some rural areas where there are some branches of some banks, these rural banks do not provide the services needed efficiently because of lack of infrastructural facilities to provide these services. For example, the absence of electricity in many rural areas hinders the usage of the ATM machines and sometimes computers in the rural areas. By implication, this group of people have been financially excluded and they have been denied access to financial services and monetary policy has no effect on this category of people.

Underdeveloped capital and money markets: The undeveloped nature of the money and capital markets, such that the ratio of population per bank is very high and the capital market is too thin, or in some cases non-existence to provide avenue for investment is a major constraint to the monetary policy implementation in Nigeria (Anyanwu, 1993). The money market in Nigeria lacks bills, stocks and share capitals. The market is still narrow in its depth and breadth of financial investments. All these limit the implementation of monetary policy.

Large quantity of money outside the banking system: Currency constitutes a large proportion of the money supply in the economy, because most transactions are carried out on 'cash-and-carry basis'. The money owned by banks collectively constitutes a small percentage of cash in circulation (Ajayi and Ojo, 2006). Since this cash funds are small in relationship to the total cash available in the economy, this limits the effectiveness of monetary policy. This process limits the banks' extent to create credit facilities to the people in need in the economy and also makes inflation control by CBN difficult.

Poor Data Quality: Poor data quality is a major constraint in the formulation of monetary policy in Nigeria. The lack of high frequency data renders econometric analysis difficult. Similarly, weak data base gives rise to parameter uncertainty, which also undermines the setting of accurate targets.

The presence of huge informal financial houses and associations and money lenders; and the recent emergence of illegal financial intermediaries which are outside the control of the Central Bank of Nigeria: Monetary management is effectively and efficiently carried out through the banking institutions with the central banks as the apex bank. The effectiveness of the policy instruments also depends on the level of control the central bank has over other banks in the economy. However, the existence of many informal financial houses and money lenders and the recent emergence of a lot of illegal financial houses that are outside the control of the Central Bank of Nigeria have posed a lot of challenges to the effectiveness of monetary policy in Nigeria. The so called "wander banks" and informal money lenders in Nigeria possesses some large amounts at their disposal that the CBN has no control over. This limits the effectiveness of monetary policy in the system. The existence of large informal financial sector has great implication for the transmission mechanism of monetary policy in Nigeria also.

Poor banking habits in the Country: Most of the people in Nigeria are poor and do not have savings. 'They live from hand to mouth'. The rich people in Nigeria on the other hand do not deposit money in banks but in buying jewelleries, gold, real estate, speculation, in conspicuous consumption, etc. Such activities contribute to inflationary pressure and are outside the control of the monetary authority. The large quantity of money outside the control of the monetary authorities limits to a large extent, the effectiveness of monetary policy in Nigeria

5.2 Prospects

It is evident that Nigeria is lacking behind in terms of attaining the desired level of the key drivers of inclusive growth based on the earlier foregone discussion of the key drivers to inclusive growth. However, the good news is that Nigeria has the potentials, capabilities and a bright prospect of achieving inclusive growth through efficient conduct of monetary policy with the combination of other macroeconomic policies in the economy. The effectiveness of monetary policy to guarantee inclusive growth in Nigeria will depend to a large extent on reducing to the barest minimum those constraints identified in the preceding section of this paper. Deliberate efforts to resolve these challenges within the economy is hoped to make the monetary policy effective to be able to influence the productive sectors of the economy positively and enhance economic growth that will further provide productive employment which will significantly reduce widespread poverty and inequality in Nigeria. Some of the ways out of these challenges to make monetary policy effective to achieve inclusive growth in

Nigeria are discussed below.

- To encourage the monetization of the economy, the CBN must impress in on the commercial banks introduce new instruments to mobilize savings that are directed at short-term savings. This is because the public is not ready to tie down their money for so long. The first task therefore is how to make easy for non-bank public to get their funds within the shortest possible time and encourage the rural populace to imbibe current banking cultures and practices of using banks for savings and transactions. This will enhance the transmission mechanism of monetary policy in Nigeria. For example, the Automated Teller Machine (ATM) system should be developed to allow customers to collect and save money any time of the day and at any locations within the country. Computerization of the banking business will greatly assist in this direction. Our banks are now computerizing or providing computer network, and there is the need for them to extent this to the rural areas. Banks must be provided with incentives (eg. Electricity) to go into this networking, as well as to open and retain branches in the rural sector. This will not only enhance the monetization of the rural sector and the effectiveness of the monetary policy, but also enhance financial inclusion in the economy especially the rural sector for inclusive growth.
- Financial inclusion is necessary for inclusive growth in Nigeria and it can be facilitated through a restructuring of financial services to capture the basic needs of the populace, usage of mobile banking and internet, micro finance institutions and the active role of educational institutes for furthering financial education.
- There is need to develop and encourage the use of new financial instruments capable of inducing the public to move away from using cash all the time for transactions. This might involve grater automation in the banking business; ability to collect cash with ease in any branch of a bank; greater ingenuity in developing banking habits, particularly in developing trust in the use of cheques, greater transparency and accountability on the part of the banks; and a host of other methods.
- Besides, for open market operations to be effective, the money market must be further developed. Efforts should be made to increase the number of instruments and operators in the money market. This would involve development of a virile secondary market in the system.
- There is also the need to control and minimized the leakages in the control system. Hence the need to monitor the activities of all financial operators and check the activities of financial houses that are outside the control of the CBN, especially the informal financial houses and money lenders and the so called ‘wonder banks’. The promulgation of BOFI Decree has laid a solid foundation in this direction by giving the CBN the necessary power to monitor the operations of both banks and non-banks financial institutions. Measures should be put in place by the CBN to encourage people to use commercial banks for savings rather than keeping money in their houses. This entails earning the confidence of the banking system by the investing public. This will reduce the excess quantity of money outside the banking system which makes the control of inflation in the economy through the monetary policy ineffective.
- Besides, timely and reliable data are required under a regime of indirect monetary control so that the CBN can intervene to stabilize the financial markets as desirable (Ekezie, 1997). The CBN needs to strengthen its machinery for providing timely and reliable data and information to the banking and financial sectors in the economy. This will help in efficient planning by the commercial banks and even earn the confidence of the non-banking public.
- With the financial sector reforms undertaken since 1986 and formal announcement in 1991 of the shift to indirect monetary control technique, there is clear evidence that monetary policy in Nigeria is moving gradually in terms of design and implementation towards a more market-based system, which is common in developed financial systems in the USA, Europe and some Asian countries. The introduction of the market-based system is an indication of improvement in the conduct of monetary policy in the system. This, when fully developed, will enhance the effectiveness of monetary policy in Nigeria.
- The banking, financial and monetary policy reforms in Nigeria are also bright prospects for monetary policy effectiveness in Nigeria. Several measures were adopted in 1990 to strengthen the banking system which is important for effective monetary management. The first action was the increase in the minimum paid-up capital of commercial and merchant banks in 1988 and 1990. Again, late in 1990, the CBN introduced a set of prudential guidelines for licensed banks which were complementary to both the capital adequacy rules and the statement of accounting standards for banks and non-bank financial institutions. The CBN also introduced bank recapitalization and consolidation in the banking industry in 2004. In conjunction with the on-going examinations of insolvent banks by both the CBN and the Nigerian Deposit Insurance Corporation (NDIC), the above actions are likely to promote a sound and

stable banking system which will promote the effectiveness of monetary policy to further enhance inclusive growth in Nigeria.

- There is also the need to reduce overreliance on monetary policy to achieve competing goals: Monetary policy should not be overburdened by multiple objectives that impede its effectiveness and may compromise central bank credibility. As suggested by empirical studies, (Groepe, 2012; and Chang and Jaffar, 2014), the policy rate tends to be weaker in countries pursuing multiple goals and sometimes conflicting.
- There is need for greater harmonization of fiscal and monetary policy by the government and monetary authorities in the economy. Under a system that relies on the manipulation of the monetary base, uncontrolled borrowing by government from the CBN will distort the base and money stock. The main implication is to review the whole system of public finance which has been a major aspect of the SAP (Anyanwu, 1992). It is desirable for all government economic policies to be coordinated so as to have some measure of internal consistency necessary for all the policies to achieve the desired impact on the real productive sectors. The CBN, as the initiator of monetary policy, should consult all the agencies of government responsible for relevant data and projections.

6. Concluding Remark

The paper attempted to provide theoretical perspective of how monetary policy can be employed to enhance inclusive growth in Nigeria. It examined theoretically the possibility of achieving inclusive growth in Nigeria through the conduct of monetary policy among other economic policies. The paper noted that monetary policy in Nigeria has been constrained by some challenges which undermine the effectiveness of monetary policy in the economy.

The paper however notes that monetary policy when developed and conducted efficiently, has the capacity to influence the real sectors of economy and positively influence all the key drivers of inclusive growth identified in this study. This therefore underscores the fact that monetary policy can be employed among other macroeconomic policies to achieve inclusive growth in Nigeria.

To make monetary policy more effective and responsive to inclusive growth in Nigeria, the study believes that achieving greater economic inclusion is a critical need for the country and the government has a major role to play in providing a more conducive environment for effectiveness of the monetary policy. For Nigeria to achieve the upside potential in terms of growth and poverty reduction, the government must play a central role in coordination between banks and others to expand efforts to support key industries, it should also pursue further improvements in areas such as health care, education, infrastructure and access to capital. Besides, monetary policy should be complemented by growth-oriented and job creating fiscal, industrial and labour policies.

The paper concludes however that although monetary policy can therefore contribute to inclusive and sustainable growth, one needs to recognize the limitations of monetary policy and hence acknowledge that other macroeconomic policies, policy makers and stakeholders also have an important and significant role to play in achieving both inclusive and sustainable growth over the longer term.

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